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Regional cooperation**Regional cooperation in the economic, social and related fields****Report of the Secretary-General***Summary*

The present report is submitted to the Economic and Social Council in accordance with General Assembly resolution 1823 (XVII) and Council resolution 1817 (LV). It is structured in two main sections. The first provides regional perspectives on two global processes under active consideration during the reporting period, namely the post-2015 development agenda and the third International Conference on Financing for Development. It also highlights the role of the regional commissions in supporting action on climate change in their regions on the road to the twenty-first session of the Conference of the Parties to the United Nations Framework Convention on Climate Change, to be held in Paris in December 2015. The second covers developments in selected areas of regional and interregional cooperation, including additional policy matters addressed during the ministerial sessions of the regional commissions; efforts to promote coherence at the regional level, including through the respective regional coordination mechanisms convened by the regional commissions, as mandated by the Council; cooperation with non-United Nations regional organizations to promote development; and enhanced interregional cooperation among the regional commissions.

As the intergovernmental processes relating to the post-2015 development agenda, the third International Conference on Financing for Development and post-Kyoto Protocol agreement progress, much emphasis has been placed on the regional dimension and on the role of the regional commissions to support Member States in the implementation of their commitments by providing policy guidance, serving as a platform for the sharing of best practices and experiences and facilitating South-South and triangular cooperation, among others. In response, the regional commissions have held consultations on the follow-up and review of the post-2015 development agenda and in preparation for the third International Conference on

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Financing for Development, to be held in Addis Ababa from 13 to 16 July 2015. The regional commissions also continue to support Member States in their pursuit of climate-neutral and resilient growth. The present report synthesizes the main messages from the regional consultations on the post-2015 development agenda and on financing for development and highlights the support provided by the regional commissions on climate change.

I. Regional perspectives on the global agenda

A. Regional perspectives on a follow-up and review mechanism for the post-2015 development agenda

1. In response to the interest expressed by Member States in this regard and a request by the Secretary-General, the United Nations regional commissions (Economic Commission for Africa (ECA), Economic Commission for Europe (ECE), Economic Commission for Latin America and the Caribbean (ECLAC), Economic and Social Commission for Asia and the Pacific (ESCAP) and Economic and Social Commission for Western Asia (ESCWA)) organized, in the second and third quarters of 2014, regional meetings to solicit views on the follow-up and review of the new agenda and to explore options based on existing mechanisms and possible new approaches. The outcomes of the meetings also served to inform the synthesis report of the Secretary-General on the post-2015 sustainable development agenda (A/69/700), issued in December 2014. In addition, pursuant to General Assembly resolution 67/290, the regional commissions also convened regional meetings in preparation for the meeting of the high-level political forum on sustainable development convened under the auspices of the Economic and Social Council, to be held from 26 June to 8 July 2015 in New York, on the theme "Strengthening integration, implementation and review: the high-level political forum after 2015".

2. In the Asia-Pacific region, the regional consultation on follow-up and review of the post-2015 development agenda was held in Bangkok on 5 and 6 August 2014. The African regional consultation was held in Addis Ababa from 21 to 23 August. The consultation in the Latin America and Caribbean region was held in Santiago on 28 and 29 August. In the ECE region, the consultation was held in Geneva on 15 and 16 September. The consultation in the Arab region was held in Tunis on 15 and 16 September. The discussions and deliberations of the regional consultations were reflected in the form of a Chair's summary produced by the respective regional commission. The summaries and other relevant documents and information are available from www.regionalcommissions.org/regional-commissions-and-Post-2015/.

3. The following is a synthesis of the main reflections and messages from the regional consultations.

1. Follow-up and review as an integral part of the post-2015 development agenda

4. The breadth and depth of the proposed sustainable development goals are unprecedented and call for action to be taken in all countries and for wide cooperation among all relevant stakeholders. A follow-up and review framework should therefore be an integral part of the post-2015 development agenda and not an afterthought. Under the principle of universality, follow-up and review should apply equally to developed and developing countries and to all stakeholders, including non-governmental actors such as civil society and the private sector. Follow-up and review should also apply to all goals and targets, including those relating to partnerships and the means of implementation, as defined in proposed sustainable development goal 17.

2. Multilayered follow-up and review framework

5. A comprehensive, multilayered and multi-stakeholder follow-up and review framework is crucial for the success of the post-2015 development agenda. The framework should ensure vertical linkages between various levels (local, national, regional and global) and horizontal linkages among actors (State and non-State) and sectors. The principle of subsidiarity should serve as a basis for the framework. According to that principle, the delivery of public goods and services is optimally achieved and monitored at each level respectively. Accordingly, the parameters and implications of the follow-up and review at the various levels ought to be defined according to the distinct functions and comparative advantages of each.

(a) National ownership and leadership

6. The backbone of a follow-up and review framework is at the national level. Consequently, the focus should be on strengthening national capacity for implementation, follow-up and review, including through greater involvement and engagement of civil society, academic institutions and the private sector from the planning to the monitoring phases. Nonetheless, review tools and monitoring mechanisms should be State-led, and based on official statistics, although the relevance of other sources of data and information was also acknowledged.

7. The post-2015 development agenda goals and targets should be nationally owned, adapted and mainstreamed into national development planning for effective follow-up and review. A periodic national review of the implementation of the sustainable development goals should be a key component of the national framework. To that end, the United Nations system could support Member States in devising national reporting mechanisms and modalities and in providing analysis to identify barriers to effective implementation. The follow-up and review framework at the global or regional level should not be used to impose conditionalities or certain development models, in particular in connection with official development assistance (ODA) and the other means of implementation.

(b) Regional dimension and the role of the regional commissions

8. The participants in the regional consultations recognized the role of the regional dimension and of the regional commissions in supporting effective regional follow-up and review, given that countries within regions shared common experiences and challenges. The regional dimension could support countries' efforts to deliver on the sustainable development goals and targets because it could strengthen their respective capabilities by encouraging them to share information, knowledge and experiences. The regional dimension could also facilitate the adjustment of global goals and targets to national and regional contexts and serve as a platform for the solution of transboundary challenges. In that regard, the regional forums on sustainable development, convened by some regional commissions with regional and other partners, were recognized as adequate platforms for follow-up and review that could complement national efforts and support regular assessments of implementation at the global level. The intergovernmental architecture available in each region was acknowledged as a means of owning and supporting the implementation of the post-2015 development agenda and its review mechanism. The following are some examples of existing institutional arrangements for follow-up and review in each of the regions.

9. The Asia-Pacific Forum on Sustainable Development has the potential to evolve into a platform for follow-up and review of the new agenda. Partnership among existing regional and subregional mechanisms could be strengthened, such as the ESCAP Committee on Statistics, the Association of Southeast Asian Nations (ASEAN) and its Corporate Social Responsibility Network, the South Asian Association for Regional Cooperation and its various institutions, the Eurasian Economic Commission, the Inter-State Commission on Sustainable Development, the Pacific Islands Forum, the Asian Development Bank and the Asian Infrastructure Investment Bank. The Asia-Pacific Forum on Sustainable Development identified regional integration and connectivity as one of the priority areas for sustainable development of ESCAP subregions. The participants recognized that trade, technology and finance were essential means of implementation for the sustainable development goals.

10. In Africa, the Common African Position on the post-2015 development agenda calls for "a new spirit of solidarity, cooperation and mutual accountability to underpin the post-2015 development agenda", namely "mutual accountability between the State and its citizens and between the State and development partners". The Common African Position High-level Committee suggested that consideration should be given to adapting the Panel of Eminent Persons under the African Peer Review Mechanism for the follow-up and review of post-2015 development agenda commitments. The Mechanism receives reports from peer-reviewed countries for vetting, analysis and onward transmittal to the Committee of Heads of State and Government and through that body, to the African Union.

11. In Latin American and the Caribbean, the existing intergovernmental architecture, including the ECLAC subsidiary bodies and other intergovernmental forums, were acknowledged as means of supporting the implementation and review of the agenda. On 16 April 2015, at an extraordinary session of the ECLAC Committee of the Whole, the Committee decided to launch a consultative process aimed at establishing a Latin American and Caribbean forum on sustainable development that could assist member States with the implementation and review of the new agenda. Regarding the follow-up and review framework, the Statistical Conference of the Americas, the Regional Conference on Population and Development in Latin America and the Caribbean and the Regional Conference on Women in Latin America and the Caribbean, for which ECLAC acts as technical secretariat, will be particularly relevant. In the Arab region, the Arab High-level Forum on Sustainable Development is the main regional platform for supporting the implementation and monitoring of the post-2015 development agenda. The potential of the Arab Sustainable Development Report as a key informative, analytical and policy tool was recognized. For any follow-up and review framework to be effective, the Arab regional development context needs to be taken into account because of the challenges relating to conflict, occupation and political transition. The participants in the regional consultations in that region identified ESCWA as providing the best regional platform to facilitate reporting on the implementation of the post-2015 development agenda, information-sharing, dissemination of best practices and capacity-building.

12. In the ECE region, well-established reporting and accountability frameworks for ECE legal instruments and national performance reviews could be integrated into a post-2015 follow-up and review framework. Experience with the environmental performance reviews indicates that regular monitoring can improve

results in various policy areas. ECE plays a key role in building national statistical capacity to measure sustainability by strengthening methodologies and consolidating international standards. The work is performed in cooperation with partners such as the regional United Nations system, other regional organizations and civil society. For example, through the "Environment for Europe" process, the Convention on the Protection and Use of Transboundary Watercourses and International Lakes and the green economy toolbox, ECE supports the management of transboundary challenges and issues.

(c) Effective links to the global level

13. The regional and global levels should support national processes, while facilitating the exchange of best practices. National information, analyses and lessons learned from the regional exchange of experiences can be collated and aggregated at the regional level and provided as input to the global meetings convened by the General Assembly and the Economic and Social Council, in particular the high-level political forum as a central body for sharing lessons learned at the global level.

14. Input by the regional forums on sustainable development could play an important role in ensuring the coherence of the overall follow-up and review framework, serving as a link between the national and the global by bringing together the main findings and messages on the implementation of the post-2015 development agenda in the regions.

3. Transparent, inclusive and participatory process

15. The participants in the regional consultations highlighted the importance of national ownership, with multi-stakeholder involvement and cooperation, for the success of the new agenda. They also underlined the importance for the sustainable development goals of maintaining a positive and inspirational spirit. That could be promoted through a participatory and inclusive approach fostering cooperation and an interactive dialogue between Governments and stakeholders. For its success, the new agenda will require considerable commitment and investment from all sectors of society. Accordingly, the follow-up and review framework needs to combine a bottom-up approach with political leadership at the helm. Incentives to the private sector, coupled with adequate regulatory frameworks, could be used to promote corporate social responsibility in the implementation and follow-up of the new agenda. Civil society should be actively involved from the planning to the evaluation phases through systematic and institutionalized mechanisms and public access to information and data. Participatory mechanisms should ensure that particularly vulnerable and marginalized groups, including young people, indigenous peoples and persons with disabilities, are reached and involved.

4. Strengthening of statistical capabilities and need for a data revolution

16. The integrity of any follow-up and review framework ultimately depends on the quality of the data and information available. While innovative technological developments will play an increasingly important role in data collection, official data and statistics should be the main source of information for follow-up and review purposes. Significant investment should therefore be made in enhancing the statistical and analytical capabilities of developing countries. The relevance of other

sources of data as a potential supplement was also acknowledged, however. To unmask disparities and identify marginalized groups, enhancing capabilities for the collection and analysis of disaggregated data is critical.

B. Financing for development: messages from the regions

17. In response to General Assembly resolution 68/279, the regional commissions held consultations in preparation for the third International Conference on Financing for Development in their respective regions at the beginning of 2015. The following are the main outcomes and messages from the consultations.

18. ECLAC held its regional consultation in Santiago on 12 and 13 March, in the framework of the twentieth session of Committee of High-level Government Experts. It was a multi-stakeholder event, with the participation of ministers of finance and of foreign affairs, civil society and the private sector. The participants stressed the need for a significant increase in domestic resource mobilization by improving the efficiency and effectiveness of tax collection and combating illicit financial flows. Illicit flows were estimated at \$154 billion for Latin America and the Caribbean in 2012, exceeding foreign direct investment (\$129 billion), representing more than twice the amount of remittances (\$63 billion) and 10 times that of ODA to the region (\$10 billion). The efforts will require international cooperation by expanding the functions and powers of the Committee of Experts on International Cooperation in Tax Matters.

19. Sovereign debt crises and litigation are a matter of particular concern for middle-income countries, which constitute the majority of countries in Latin America and the Caribbean. Furthermore, the creation of a debt restructuring framework, with the possibility of debt forgiveness with multilateral institutions for the Caribbean countries, which would include encouraging their climate change mitigation and adaptation measures, is needed. The asymmetries of the global architecture must be addressed, as must the governance of global institutions, which must be universal, inclusive and reflective of the interests, needs and objectives of the international community as a whole. Effectively mobilizing private resources for development involves blending private and public resources and creating public-private partnerships to achieve the leverage required for maximum development financing impact. Efforts to addressing issues surrounding remittances should be coupled with efforts to address the challenges and needs of migrants.

20. ECE organized its regional consultation, in collaboration with the United Nations Development Group in Europe and Central Asia, on 23 March 2015. The main focus of the discussions was to identify strategies and instruments that the region could offer to promote resource mobilization for sustainable development and the implementation of the post-2015 development agenda. The participants emphasized that domestic public finance or tax revenue was the largest source of financing directly available to Governments. Public initiatives to strengthen domestic resource mobilization should not be limited to tax policies, however, but also target private sector development and consider the impact of public expenditure. It was recognized that ODA would continue to play an important role, in particular for the least developed countries and countries in conflict or fragile situations. It was noted that, given that the vast majority of the resources that could be tapped were in private hands, the challenge at the third International Conference

on Financing for Development would be to identify ways to redirect those resources to meet the needs of sustainable development. Public initiatives could increase the amount of private investment to achieve the sustainable development goals. Well-designed instruments for effective risk-sharing between the public and private sectors could leverage public funding to bring in much greater private resources. Innovative financing constituted one of the fastest-growing sectors of the sustainable financing landscape and should be an integral part of future strategies for financing for development.

21. In addition to a national enabling environment, it was recognized that international cooperation was critical to stopping illicit financial flows and optimizing tax revenue. Greater transparency in tax matters, including better information on beneficial ownership, was required. Trade and foreign direct investment were major channels for technology transfer. Appropriate trade and investment policies to facilitate access and effective use of technologies for sustainable consumption and production in support of sustainable development were needed. International initiatives must be complemented by the creation of national capacity to absorb and disseminate that technology. A universal monitoring and review framework would be critical to evaluating progress and ensuring accountability in relation to commitments. A mechanism to follow up on the outcome of the third International Conference on Financing for Development should be linked with the overall follow-up to the post-2015 development agenda.

22. To articulate the priorities of Africa, ECA, jointly with the African Union Commission, organized a multi-stakeholder regional consultation on 23 and 24 March 2015 in Addis Ababa. The outcome took the form of a Chair's summary. The participants reaffirmed that national resources were the primary source of financing for development and therefore should be enhanced by tax reforms that were fair, efficient and transparent. It was stated that it was important to broaden the tax base in African countries by revising current tax exemptions, reviewing tax legislation, combating tax fraud and tackling illicit financial outflows from Africa. There were, however, limits to the levels of national resources that could currently be mobilized by African countries, meaning that ODA remained a key complement to national resources. Development partners must respect their financial pledges in a timely manner and external resources should be allocated to priority sectors in Africa, such as infrastructure and agriculture.

23. It was said that adequate public policies could direct private sector investment to the implementation of the sustainable development goals. Innovative sources of financing, including philanthropy and voluntary contributions, were important instruments for mobilizing capital. Other sources of capital into which African countries could tap included private equity, sovereign wealth and well-designed private-public partnerships. The participants also reaffirmed the importance of multilateral development banks, financial inclusion, providing access to credit for small and medium-sized enterprises, South-South cooperation, sovereign debt management and restructuring and commitment to good governance and institutional development. On 31 March 2015, the Conference of Ministers adopted resolution 929 (XLVIII), entitled "Financing for development: Africa's perspectives", in which it endorsed the outcome document of the consultations. It provides further support to African negotiators and underpins the continent's position on the global discussion on financing for development (see E/2015/15/Add.1).

24. ESCWA held its regional consultations in Amman on 7 and 8 April. Many international and regional organizations, members of the private sector, regional development funds and non-governmental organizations also participated. There was a call for the principle of common but differentiated responsibilities to be applied to the financing for development process and an emphasis that the climate fund should be financed separately from ODA. Participants recognized the importance of remittances as a source of revenue to many countries, but stressed that they were not a substitute for ODA or public finance. Efforts to addressing issues surrounding remittances should also be coupled with efforts to address the rights, needs and priorities of migrants, including through reduced transaction and recruitment fees and by devising financial products to empower them.

25. It was suggested that the outcome of the third International Conference on Financing for Development should also tackle challenges facing developing countries in mobilizing financial resources owing to unresolved issues relating to international trade and subsidies provided to the agricultural sector in developed countries. Exploring innovative sources of financing, in particular "green *sukuk*", and the development of new models for public-private partnerships could be important sources of additional revenue. While participants expressed appreciation for the critical role of the Arab development funds in financing for development, they also called for an ESCWA feasibility study to establish an Arab bank for reconstruction and development to meet an estimated sustainable development financing gap in the Arab region amounting to \$3.6 trillion for the period 2015-2030, with an additional \$650 billion needed for post-conflict reconstruction.

26. ESCAP held its regional consultations on 29 and 30 April in Jakarta, co-hosted by the Ministry of Finance of Indonesia, in partnership with the Asian Development Bank, the Asian Development Bank Institute, the United Nations Development Programme (UNDP), the Government of the Russian Federation, and the Green Technology Centre-Korea. The outcome took the form of a Chair's summary, in which the Chair identified key priorities of the region while proposing several specific recommendations, such as renewed efforts to mobilize national sources of financing to address social disparities and income inequalities, including those between the genders. Doing so called for raising tax-to-gross domestic product ratios, improving the effectiveness and efficiency of public expenditure and making budgeting needs more gender-sensitive. It was recommended that the region should enhance cooperation in tax matters by setting up an Asia-Pacific tax forum. Incentives must also be provided to cities and subnational governments to mobilize resources and to the private sector to invest in high-quality infrastructure and contribute to sustainable development, including through public-private partnerships. The Chair also called for efforts to ensure that unmet ODA commitments were fulfilled and that ODA was deployed more strategically, according priority to those countries that needed it the most, such as least developed countries, landlocked developing countries and small island developing States. Other potential sources included \$218 billion in remittances, \$492 billion in foreign direct investment, \$4 trillion in fiscal revenues and \$6 trillion in private savings. In addition, the stock of financial assets of the region's most wealthy individuals amounted to \$35 trillion in 2013.

27. A critical issue was how to enhance country capacity and regulatory frameworks for the effective functioning of national capital markets. The importance of Islamic finance was recognized, notably in providing capital for

micro, small and medium-sized enterprises. The participants welcomed the financing of national and transboundary connectivity by the newly established Asian Infrastructure Investment Bank and encouraged close cooperation between new and existing multilateral development banks for the promotion of sustainable and resilient infrastructure in the region. There was a call for private businesses in the region to bolster social-impact investing and venture philanthropy to fund education, health and environmental protection, in particular at the community level. It was important for the region to enhance North-South, South-South cooperation and triangular development cooperation, including with the private sector for sustainable development.

C. Supporting action on climate change: the role of the regional commissions

28. Given the development implications associated with a successor treaty to the Kyoto Protocol to the United Nations Framework Convention on Climate Change, the regional commissions have been engaged in supporting their constituencies in preparation for the twenty-first session of the Conference of the Parties to the United Nations Framework Convention on Climate Change, to be held in Paris in December 2015.

29. The African Climate Policy Centre of ECA has identified the following three critical areas of support: supporting the participation of Africa in global governance, raising awareness of the implications of the climate change agreements for Africa and supporting African States in the implementation of their intended nationally determined contributions. Those areas of support complement activities that the Centre conducts as part of its overall operational activities under the Climate for Development in Africa programme.

30. The African Climate Policy Centre is providing critical technical backstopping support to the African group of negotiators to ensure that key research findings are fed into negotiation strategies and reflect essential pivots for a common African position. In the run-up to the twenty-first session of the Conference of the Parties, the Centre has planned regional forums in East, West/Central, South and North Africa, where key stakeholders will engage in debate to raise awareness of the emerging climate agreement and its implications for Africa. The forums are expected to increase public awareness of climate change at the highest political level, elicit critical civil society reflection and inform the positions of Africa on the key issues relating to the post-2015 climate agreement. In addition to providing wider support to African small island developing States, the Centre will establish a regional climate observation centre to serve West Africa and the small island developing States, thereby enhancing capacity that will further enable the implementation of intended nationally determined contributions in specific small island developing States.

31. ECE carries out multiple activities that have an impact on climate change mitigation and adaptation. Some highlights over the recent period include: revised recommendations to the United Nations Framework Convention on Climate Change on carbon capture and storage in energy production and oil recovery; a compilation of best policy practices for promoting energy efficiency; an analysis of climate change impacts and adaptation for international transport networks, which was

prepared to assist the work of the Group of Experts on Climate Change Impacts and Adaptation for International Transport Networks; the continuing implementation of the Rovaniemi Action Plan for the Forest Sector in a Green Economy; a publication, *Water and Climate Change Adaptation in Transboundary Basins: Lessons Learned and Good Practices*, relating to pilot projects under the Convention on the Protection and Use of Transboundary Watercourses and International Lakes; the endorsement of the recommendations on climate change statistics by the Conference of European Statisticians in April 2014, aimed at improving the statistics relating to climate change collected by national statistical offices; and the environmental performance reviews for Croatia, Morocco and the Republic of Moldova, which included a dedicated chapter on climate change.

32. ECE being an active member of UN-Energy, its programme of work on sustainable energy is aimed at providing access to affordable and clean energy to all, in line with the goals of the Sustainable Energy for All initiative, and to help in reducing greenhouse gas emissions and the carbon footprint of the energy sector. ECE works closely with other organizations in the United Nations system, in particular the other regional commissions, to deliver on Sustainable Energy for All and reduce global greenhouse gas emissions.

33. In the framework of the Climate Summit held in New York in 2014, ECLAC launched a report, *The Economics of Climate Change in Latin America and the Caribbean: Paradoxes and Challenges*, in which the costs of the expected impacts of climate change in Latin American and the Caribbean are estimated and it is pointed out that the region must urgently design and implement adaptation strategies that include a long-term vision and take into account collateral impacts. The report provided relevant information for negotiators and the public towards the twentieth and twenty-first sessions of the Conference of the Parties to the Framework Convention on Climate Change on sustainable production and consumption patterns, risk management and adaptation to climate change, among others. ECLAC will again deliver its regional findings and progress to the Conference of the Parties at its twenty-first session.

34. Furthermore, ECLAC and the United Nations Environment Programme are jointly supporting the regional meetings of the chief negotiators for climate change of Latin America and the Caribbean (held in May and October 2014 and 2015 in Lima and Santiago), an initiative of the ministries of foreign affairs of Brazil and Chile to strengthen the position of Latin American and Caribbean countries in the upcoming climate change agreement. ECLAC also continued to provide technical assistance to many countries in the region, including for the preparation of the intended nationally determined contributions.

35. Given that the Asia-Pacific region accounts for much of the global burden of deaths and economic losses owing to disasters, the work of ESCAP has focused on strengthening regional cooperation to tackle climate-related risks and vulnerabilities and enhancing resilience to climate impacts. Its work on climate change aims to assist member States in turning the climate crisis into opportunities for economic growth and poverty reduction. In line therewith, ESCAP has sought to assist member States by mainstreaming climate change mitigation into development through technical assistance and capacity development, analytical work and e-learning tools. It has also sought to link climate change mitigation with climate finance.

36. ESCAP has led several initiatives in the past, including the establishment of the Mekong River Commission, the ESCAP/World Meteorological Organization (WMO) Typhoon Committee, the WMO/ESCAP Panel on Tropical Cyclones and the ESCAP Regional Cooperative Mechanism for Drought Monitoring and Early Warning, which have contributed substantially to addressing hydro-meteorological disasters in the region. The foundations of regional cooperation have been built on common river-basin, ocean-basin and agricultural ecosystems. In February 2015, ESCAP hosted the third joint session of the Panel on Tropical Cyclones and the Typhoon Committee. The joint session led to an agreement that established a new cooperative arrangement between the two platforms, for sharing of second-generation meteorological satellite data and products as well as advanced modelling skills for improved forecasting and early warning. In addition, ESCAP has strengthened regional cooperation platforms, including the long-standing Regional Space Applications Programme for Sustainable Development, that tailor programmes for high-risk, low-capacity developing countries by providing greater access to innovative forms of technology, especially space applications for effective disaster risk reduction and sustainable development. The ESCAP Multi-Donor Trust Fund for Tsunami, Disaster and Climate Preparedness in Indian Ocean and Southeast Asian Countries, established since 2004, continues to play a key role in strengthening end-to-end early warning systems for coastal multi-hazards. It also made a major contribution to the establishment of the Regional Integrated Multi-Hazard Early Warning System for Africa and Asia, an intergovernmental institution of which the products and services — including tsunami forecasting, risk assessment, evacuation mapping, monitoring and forecasting of severe weather, and seasonal climate outlooks — have proved particularly useful for countries with limited national capacity.

37. In the Pacific, where climate change is regarded as the single biggest threat to the livelihoods and future of people and where migration is seen as an adaptive option, ESCAP, together with the International Labour Organization and UNDP, has initiated a European Union-funded project on enhancing the capacity of Pacific island countries to manage the impact of climate change on migration. The project focuses on Kiribati, Nauru and Tuvalu, where assistance is provided to develop migration indicators and share information on labour migration, gather data on community attitudes to migration induced by climate change, develop climate change responses and national action to mitigate the risk of displacement and enhance the capacity to participate effectively in regional, bilateral and global schemes on labour migration and discussions on the implications of climate change for displacement and relocation.

38. In the Arab region, ESCWA has been actively supporting member States in relation to climate change negotiations, assessment, adaptation and mitigation. Specifically, it has been coordinating with the League of Arab States to conduct climate change negotiation workshops to build capacity and foster intergovernmental dialogue and also to hold discussions before the midterm and formal negotiation sessions under the United Nations Framework Convention on Climate Change. These were held in 2013 (Amman), 2014 (Amman and Kuwait) and 2015 (Qatar and Oman).

39. In addition, ESCWA is coordinating a regional initiative on the impact of climate change on water resources and socioeconomic vulnerability in the Arab region with 10 United Nations entities, the League of Arab States and international

expert institutions under the auspices of, and in consultation with, the Arab Ministerial Water Council, the Council of Arab Ministers Responsible for the Environment and the Arab Permanent Committee on Meteorology. The initiative has generated regional climate change projections and hydrological projections for the Arab region, which are being complemented by a vulnerability analysis focused on five key sectors. The inputs and outputs of the initiative are providing a platform for regional priority-setting and policy formulation among Arab States on key climate change priorities. The initiative is also supporting the establishment of an Arab climate outlook forum to support consensus-building and dialogue on regional climate prediction and projection, and is also establishing a regional knowledge hub to provide policymakers and their advisers and researchers with a regional source of information on climate change assessment, as well as adaptation tools appropriate for the Arab region that draw upon the climate change assessment findings. ESCWA is also supporting work on climate change mitigation, with projects and technical assistance being provided to member States in the area of energy efficiency, renewable energy and climate change financing.

II. Developments in selected areas of regional and interregional cooperation

A. Additional policy issues addressed by the regional commissions at their ministerial sessions and other high-level meetings

40. The eighth Joint Annual Meetings of the African Union Specialized Technical Committee on Finance, Monetary Affairs, Economic Planning and Integration and the ECA Conference of African Ministers of Finance, Planning and Economic Development were held in Addis Ababa on 30 and 31 March 2015 on the theme "Implementing Agenda 2063: planning, mobilizing and financing for development".

41. The participants explored key issues relating to Agenda 2063 in general and the associated first 10-year plan in particular, including implementation arrangements and capacities, integration in national and regional development plans, monitoring and evaluation, financing strategies, stakeholder participation, partnerships and communication. The Conference of Ministers adopted resolutions on major policy issues in which it invited ECA and the African Union Commission to convene, on a biennial basis, the African Regional Forum on Sustainable Development; mandated ECA, the African Development Bank, the African Union Commission and other stakeholders to undertake work in such key areas as domestic resource mobilization, illicit financial flows, the financing of Agenda 2063 and the involvement of civil society organizations in the implementation of the 10-year implementation plan of Agenda 2063; and encouraged all member States to adopt the African Social Development Index and mainstream it into their national development plans.

42. At the time of writing, the seventy-first session of ESCAP was to be held from 25 to 29 May 2015 under the theme "Balancing the three dimensions of sustainable development: from integration to implementation". The session was to feature a ministerial round table on the theme; a ministerial panel on the *Economic and Social Survey of Asia and the Pacific 2015*; a high-level consultation of the Group of 20; a high-level dialogue on the SIDS Accelerated Modalities of Action (SAMOA)

Pathway; and a special exhibition on sustainable development. ESCAP will also convene the second Ministerial Conference on Regional Economic Cooperation and Integration in Asia and the Pacific to support the implementation of the Bangkok Declaration on Regional Economic Cooperation and Integration in Asia and the Pacific (Commission resolution 70/1), in December 2015.

43. The sixty-sixth session of ECE was held in Geneva from 14 to 16 April 2015. Member States endorsed a high-level statement on the post-2015 development agenda and expected sustainable development goals in the ECE region, in which they committed themselves to sustainable development from the local to the global levels. Among other things, member States recalled that ECE was a results-driven organization that developed best practices and standards agreements that served as catalysts for action in its member States and around the world and that it was ideally placed to continue to make a strong contribution to sustainable development for current and future generations.

44. The thirtieth session of the Committee of the Whole of ECLAC was held in New York on 19 and 20 March 2015. At the session, the Committee adopted three resolutions: one in which it granted Norway admission as a member of the Commission; one in which it took note of the Santiago Decision on the application of Principle 10 of the Rio Declaration on Environment and Development in Latin America and the Caribbean; and one in which it convened an extraordinary session of the Committee to consider a draft resolution on a Latin American and Caribbean forum on sustainable development. As mentioned above, the Committee subsequently held an extraordinary session on 16 April in Santiago, at which it launched a consultative process with the Governments of the region aimed at establishing the forum.

45. In the framework of the follow-up to the fourth World Conference on Women and to the twenty-third special session of the General Assembly entitled "Women 2000: gender equality, development and peace for the twenty-first century", the regional commissions held regional reviews, in partnership and collaboration with the United Nations Entity for Gender Equality and the Empowerment of Women. ECE held its regional review meeting on 6 and 7 November 2014 in Geneva, with an outcome in the form of Co-Chairs' conclusions.

46. ESCAP convened the Asian and Pacific Conference on Gender Equality and Women's Empowerment from 17 to 20 November 2014 in Bangkok. Participants adopted the Asian and Pacific Ministerial Declaration on Advancing Gender Equality and Women's Empowerment. ECA held the ninth African Regional Conference on Women from 17 to 19 November 2014 in Addis Ababa, resulting in the adoption of the Addis Ababa Declaration on Accelerating the Implementation of the Beijing Platform for Action.

47. ECLAC held the fifty-first meeting of the Presiding Officers of the Regional Conference on Women in Latin America and the Caribbean in Santiago from 17 to 19 November 2014, which resulted in the adoption of a statement. ESCWA convened the intergovernmental Arab High-Level Conference on Progress Achieved in Implementation of the Beijing Platform for Action after 20 Years, from 2 to 3 February 2015 in Cairo, which concluded with the adoption of a declaration on justice and equality for women in the Arab region. The key findings from the regions, and the main policy recommendations and strategies for future action of all regional outcome documents, underscored the important role of the regional

commissions in the follow-up to and implementation of the regional reviews. Across all regions, gender equality, women's empowerment and the human rights of women and girls were increasingly recognized as key to creating stronger and more sustainable societies for all, and thus central to development planning.

B. Coherence at the regional level

1. Regional coordination mechanisms

48. ESCWA convened the twentieth meeting of the Regional Coordination Mechanism for the Arab region on 11 December 2014 in Beirut. Participants addressed two key issues: the role of the United Nations in a rapidly changing political environment marked by conflict and crisis four years after the Arab uprisings, and how to enhance the regional processes in support of a new sustainable development framework and the post-2015 development agenda. Recognizing the magnitude and possible irreversibility of the impact of conflicts on the region, as well as their economic, social and political ramifications, participants emphasized the regional imperative of overcoming the deficiencies of past approaches to development and improving coherence across interventions. The representatives of the United Nations system and the League of Arab States agreed to collectively identify and advocate cross-cutting regional priorities, such as occupation, young people, migration, refugees and internally displaced persons; to continue to advance regional priorities in the articulation of the sustainable development goals; to support data collection, monitoring and analysis in the context of the post-2015 development agenda; and to engage with the regional consultations on the World Humanitarian Summit.

49. During the reporting period, the Regional Coordination Mechanism for Asia and the Pacific focused its work on articulating the perspectives of the United Nations system in the region on the post-2015 development agenda and on the implementation of the ASEAN-United Nations comprehensive partnership. The ASEAN-United Nations workplan for 2015, adopted at the ASEAN-United Nations summit in November 2014 in Myanmar, outlines priorities for cooperation in all the pillars of the joint declaration on the comprehensive partnership.

50. The following are some of the key highlights of the work of the Regional Coordination Mechanism for Asia and the Pacific: the development of the second phase of the ASEAN-United Nations Strategic Plan of Cooperation on Disaster Management; the convening of the Asian and Pacific Conference on Gender Equality and Women's Empowerment from 17 to 20 November 2014 in Bangkok; the development of the Regional Guiding Framework for Achieving Zero Hunger; and the publication of the first Asia and the Pacific report on youth, launched at a special commemorative session of the General Assembly marking the twentieth anniversary of the World Programme of Action for Youth, held in May 2015 in New York.

51. The sixteenth session of the Regional Coordination Mechanism for Africa was held on the margins of the joint annual meetings of the Africa Conference of African Ministers of Finance, Planning and Economic Development and of Economy and Finance, in March 2015, to provide an opportunity for senior United Nations officials to engage directly with ministers responsible for finance, planning and economic development on pertinent issues relating to the African development

agenda. The Mechanism was requested to align its structure with and focus its support on the strategic plan for 2014-2017 of the African Union Commission, the 10-year implementation plan for Agenda 2063 and the Common African Position on the post-2015 development agenda.

52. A new programme for the United Nations-African Union partnership, anchored on Agenda 2063, was endorsed at the session and will be adopted by the African Union in June 2015. Subsequently, it will be submitted for the consideration of the General Assembly in September 2015. With the support of the Africa Group based in New York, the necessary action should then be taken to ensure that the new framework is adequately resourced and is included in the 2016-2017 budget cycle of the United Nations. United Nations agencies, organizations, funds and programmes will also need to include in their budgetary processes their programmes of support for the African Union and Agenda 2063 in the context of the Mechanism.

53. The secretariat of the Regional Coordination Mechanism for Africa, housed at ECA, has developed a handbook and toolkit providing basic guidance on how the resources of the Mechanism may best be harnessed for the benefit of Africa. The handbook addresses the various facets of collaboration and coordination in programming, monitoring and evaluation and resource mobilization and the linkages between regional and subregional coordination to ensure the realization of the transformation agenda in Africa. Key achievements of the Mechanism include addressing the cost of hunger in Africa through analyses of the cost of not addressing nutrition for a nation's economy and finances; providing support to the efforts of the African Union Commission to combat Ebola in West Africa, considered to be an example of good practice in joint efforts; undertaking activities in support of the economic empowerment of women with a view to attaining food and nutrition security and bioenergy development; and providing support to the High-level Panel on Illicit Financial Flows from Africa, with a view to tackling corruption, combating illicit financial flows from Africa and strengthening institutional capacity in terms of public financial management.

54. In Europe and Central Asia, the Regional Coordination Mechanism and the United Nations Development Group continued to focus on the global post-2015 development process and the lessons that could be derived from the implementation of the Millennium Development Goals by publishing in February 2015 a joint report entitled "The Millennium Development Goals in Europe and Central Asia: lessons on monitoring and implementation of the MDGs for the post-2015 agenda, based upon five illustrative case studies". Some of the lessons referred to the complexity of the adaptation and disaggregation of global goals and indicators at the national level to track progress and the problems in the practical implementation at the national and regional levels, including in relation to accountability, financing, coordination and transboundary implications. The Mechanism set up an inter-agency regional thematic group on non-communicable diseases and social, economic and environmental determinants of health, led by the World Health Organization Regional Office for Europe and based on the Health 2020 framework.

55. The meeting of the Regional Coordination Mechanism for Latin America and the Caribbean was convened by ECLAC in Santiago on 7 October 2014. The Deputy Secretary-General addressed the participants by videoconference. United Nations system regional leaders analysed the process of economic deceleration in Latin America and the Caribbean and the risk of stagnation in the social sphere,

strategizing collectively about how the United Nations could best contribute, with the countries in the region, to adequately addressing the multidimensional development challenges before them. The Mechanism agreed to continue focusing on ways to strengthen the positioning of the United Nations system in the region to optimize the support that it provided to all stakeholders in member States, placing sustainability and equality at the centre of the agenda. ECLAC agreed to coordinate a final inter-agency report assessing the progress achieved in efforts to attain the Millennium Development Goals during the period 2000-2015, to be submitted to member States in the middle of 2015.

2. Engagement with non-United Nations organizations in the region

56. In pursuit of their mandate to build regional consensus on shared priorities and common solutions to common problems, including by providing regional hubs for sharing development knowledge and good practices among the regions, the regional commissions continued to work closely with regional and subregional organizations. During the reporting period, ECE worked on reinforcing ties in its region and beyond, with, among others, the European Union, the Organization for Economic Cooperation and Development, the secretariat of the Integration Committee of the Eurasian Economic Community and the Eurasian Economic Commission. ECLAC continued to actively support the work of regional and subregional intergovernmental integration bodies such as the Caribbean Community, the Central American Integration System, the Bolivarian Alliance for the Peoples of Our America, the Union of South American Nations and the Community of Latin American and Caribbean States (CELAC) through knowledge products to promote regional integration, support the projection of a concerted voice from Latin America and the Caribbean in international meetings and global conferences and strengthen the region in its dialogue with other regions. For example, ECLAC collaborated with CELAC, during the Second Summit of CELAC, held in Havana in January 2014, on five substantive documents on public policies for equality, education, financial architecture, natural resources governance and the regional economic panorama. ECLAC also prepared technical input for the first China-CELAC Forum and the third European Union-CELAC Summit of Heads of State and Government, in 2015. Lastly, in the lead-up to the third International Conference on Financing for Development, ECLAC has strengthened its collaboration with regional development banks such as the Development Bank of Latin American, the Caribbean Development Bank, the Inter-American Development Bank and the Latin America Reserve Fund, in addition to other emerging entities.

57. ESCWA has collaborated closely with the League of Arab States, through its ministerial councils, in defining regional priorities and articulating regional positions for the post-2015 development agenda. ESCWA, also in partnership with the United Nations Environment Programme, led the preparations for the second session of the Arab High-level Forum on Sustainable Development, held in Bahrain in May 2015. ESCWA also engages with intergovernmental bodies such as the subsidiary bodies of the League of Arab States, the Gulf Cooperation Council and the Organization of Islamic Cooperation, as well as non-governmental organizations and regional research institutes and foundations. The Commission's strategic partnerships with these entities are aimed at influencing development policies, enhancing the impact of its interventions and building regional capacity and consensus around key issues.

58. In the framework of the ASEAN-United Nations workplan for 2015, ESCAP has continued to support ASEAN in the implementation of the Master Plan on ASEAN Connectivity, including through the development of an integrated transport and logistics system, the implementation of trade facilitation measures, including the ASEAN single window, and the strengthening of the national statistical systems of ASEAN member States, including monitoring requirements for the Millennium Development Goals. ESCAP has also developed a Pacific strategy to support the implementation of the SAMOA Pathway, adopted at the third International Conference on Small Island Developing States, which involves enhanced engagement with the Pacific regional organizations, the Pacific Islands Forum secretariat, the secretariat of the Pacific Community, the secretariat of the Pacific Regional Environment Programme, the University of the South Pacific and the Pacific Islands Development Programme. ESCAP has also strengthened its cooperation with the secretariat of the South Asian Association for Regional Cooperation by organizing a joint consultation on post-2015 development agenda in Nagarkot, Nepal, in August 2014, in conjunction with the ESCAP/Asian Development Bank/UNDP regional Millennium Development Goals partnership. ESCAP has also established coordination with the Association in other areas, including for women's empowerment, trade facilitation and transport connectivity. ESCAP, jointly with ECE, is reinforcing the United Nations Special Programme for the Economies of Central Asia as an important instrument for post-2015 development agenda.

59. ECA, through the Regional Coordination Mechanism for Africa, continued to strength cooperation between the United Nations and the African Union. ECA has provided support to the African Union and its organs through the implementation of continental programmes, which are based on the priorities of the Union, in particular the New Partnership for Africa's Development (NEPAD) and the 10-year capacity-building programme for the African Union, in addition to activities to promote advocacy for the Union, NEPAD, the African Peer Review Mechanism and the regional economic communities. Other activities included assessment reports on the transition to a green economy and associated challenges; technical advisory services and facilitation of stakeholder engagement on decent employment creation, employment for young people and women, poverty eradication, and fostering inclusive development in Africa; and strengthening the effective governance and regulation of labour migration and mobility in Africa and social protection. In the area of peace and security, efforts were made to respond to needs and requirements of African Union programmes and the enhancement and coordination of short-term operations.

C. Enhanced interregional cooperation among the regional commissions

60. Since the past reporting period, the executive secretaries of the regional commissions have met on four occasions: on 3 July 2014 in New York, on the margins of the high-level political forum and the Economic and Social Council; in September 2014 in New York, on the margins of the general debate of the General Assembly and high-level events; in December 2014, through videoconferencing; and on 19 March 2015 in Turin, Italy, on the margins of the United Nations senior managers' retreat. The meetings provided opportunities to make progress in respect

of many items on the regional agendas mentioned herein, in a concerted and consensual manner, such as on regional consultations on the issue of accountability in the post-2015 development agenda, on providing input to the report of the Secretary-General entitled "The road to dignity by 2030: ending poverty, transforming all lives and protecting the planet", on modalities for bringing the outcomes of the regional consultations to the global process of the third International Conference on Financing for Development, in July 2015, and on strategic initiatives for interregional policy cooperation. The regional commissions also contributed in a concerted manner to the ministerial meeting of the Group of 77 and China on the theme "Governance of natural resources and industrialization", held in Tarija, Plurinational State of Bolivia, on 28 and 29 November 2014.

61. Building upon the criteria defined in 2014 to guide enhanced interregional cooperation, the regional commissions are jointly implementing several Development Account projects in areas such as equality, statistics, trade and investment, connectivity for landlocked countries, young people, gender, social protection, resilience to disasters, environmental capital valuation and renewable energy. In particular, two projects reflect the commitment and readiness of the regional commissions to support their member countries through the best effective expertise of the regional commissions:

(a) The project entitled "Promoting equality: strengthening the capacity of selected developing countries to design and implement equality-oriented public policies and programmes", the main objective of which is to strengthen countries' capacities to implement multidisciplinary public policies oriented towards greater socioeconomic equality;

(b) The project entitled "Programme for statistics and data", which will focus on the establishment or strengthening of national coordination mechanisms and strategy for monitoring the sustainable development goals, building on existing national strategies for the development of statistics.



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Agenda item 15

Regional cooperation

Regional cooperation in the economic, social and related fields

Report of the Secretary-General

Addendum

Matters calling for action by the Economic and Social Council or brought to its attention: Economic Commission for Latin America and the Caribbean, Economic Commission for Europe and Economic Commission for Africa

Summary

The present addendum to the report of the Secretary-General on regional cooperation in the economic, social and related fields contains information on resolutions and decisions adopted or endorsed at the Conference of African Ministers of Finance, Planning and Economic Development (forty-eighth session of the Economic Commission for Africa), held in Addis Ababa on 30 and 31 March 2015, at the thirtieth session of the Committee of the Whole of the Economic Commission for Latin America and the Caribbean, held in New York on 19 and 20 March 2015, at the sixteenth extraordinary session of the Committee of the Whole of the Economic Commission for Latin America and the Caribbean, held in Santiago on 16 April 2015, and at the sixty-sixth session of the Economic Commission for Europe, held in Geneva from 14 to 16 April 2015.



I. Matters calling for action by the Council

1. At its thirtieth session, held in New York from 19 to 20 March 2015 the Committee of the Whole of the Economic Commission for Latin America and the Caribbean approved resolution 692 (PLEN.30), on the basis of which the following draft resolution is submitted for action by the Economic and Social Council.

Economic Commission for Latin America and the Caribbean

Admission of Norway as a member of the Economic Commission for Latin America and the Caribbean

The Economic and Social Council,

Noting resolution 692 (PLEN.30) of the Committee of the Whole of the Economic Commission for Latin America and the Caribbean concerning the admission of Norway as a member of the Economic Commission for Latin America and the Caribbean,

Approves the admission of Norway as a member of the Economic Commission for Latin America and the Caribbean.

II. Matters brought to the attention of the Council

A. Economic Commission for Africa

2. The eighth Joint Annual Meetings of the African Union Specialized Technical Committee on Finance, Monetary Affairs, Economic Planning and Integration and the Economic Commission for Africa Conference of African Ministers of Finance, Planning and Economic Development was held in Addis Ababa on 30 and 31 March 2015 on the theme "Implementing Agenda 2063: planning, mobilizing and financing for development". The Conference adopted a ministerial statement and approved a number of resolutions relating to the programme of work of the Economic Commission for Africa, summaries of which are set out below for the attention of the Economic and Social Council.

Summary of the ministerial statement

3. The Ministers saluted the fact that Agenda 2063 emerged from consultative processes and declared that it should serve as the vision for the structural transformation of the continent. They committed themselves to tackling poverty and inequality, providing productive employment and decent jobs for young Africans, empowering women and prioritizing the welfare of African children and reiterated their full support for a post-2015 development agenda.
4. The Ministers noted with appreciation the material and financial support provided to Guinea, Liberia and Sierra Leone by other African countries and the African private sector during the outbreak of the Ebola virus disease, renewed their unequivocal support for the Governments and peoples of those three countries and welcomed the pledges made thus far by the international community to support

them. Further, the Ministers appealed for immediate steps to be taken to restore growth and enable recovery in those countries, including debt cancellation.

5. The Ministers welcomed the intention to split Agenda 2063 into separate 10-year development plans to facilitate its implementation, recognizing that, to a great extent, its successful implementation will depend on strong linkages between the planning, mobilizing and financing of the processes of structural transformation. The Ministers committed themselves to improving planning processes in their countries by, inter alia, strengthening existing pan-African statistical institutions, as well as other similar institutions agreed to by Heads of State and Government, to support the implementation of the first 10-year plan of Agenda 2063.

6. The Ministers endorsed the recommendations set out in the report of the High-level Panel on Illicit Financial Flows from Africa and called upon the international community to complement Africa's efforts to track, stop and repatriate illicit financial flows.

7. The Ministers urged African countries, when negotiating trade and investment agreements, to assess the impact of those agreements on industrialization and economic transformation and to emphasize plans and policies that promote regional integration. The Ministers agreed to support the negotiations for the establishment of a continental free-trade area and urged the African Union Commission, the African Development Bank and the Economic Commission for Africa to accelerate the development of the planned Africa Regional Integration Index.

8. The Ministers urged the adoption of science-informed and evidence-based policy, planning and practices to make African development sustainable, more resilient and less vulnerable to the negative impacts of climate variability and change. They strongly encouraged their countries to explore South-South and triangular cooperation in order to leverage the opportunities offered by emerging economic powers, while urging their traditional partners to continue to support their development efforts.

9. The Ministers endorsed the Vienna Programme of Action for Landlocked Developing Countries for the Decade 2014-2024 and called for its full and effective implementation. They called upon the Economic Commission for Africa, the African Union Commission, the African Development Bank, regional economic communities and all other regional and subregional organizations to provide the necessary support to landlocked African countries through their respective work programmes and in accordance with their respective mandates.

10. The Ministers called upon development partners to provide enhanced and preferential official development assistance to African least developed countries and reiterated the need to institutionalize the review of the implementation of the Programme of Action for the Least Developed Countries for the Decade 2011-2020 and to ensure that African least developed countries are adequately represented in that review. They welcomed the offer of the Government of Italy to host a ministerial meeting on structural transformation and graduation for African least developed countries in June 2015 and requested the Economic Commission for Africa, in collaboration with the United Nations Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States and other partners, to organize an African regional meeting in preparation for it.

**Implementing Agenda 2063: planning, mobilizing and financing for development
(resolution 928 (XLVIII))**

11. The Conference of Ministers urged the African Union Commission, in the finalization of the first 10-year implementation plan of Agenda 2063, to (a) further improve on the milestones, targets and strategies contained in the plan; (b) explore synergies and opportunities for the harmonization of the objectives, targets and indicators of Agenda 2063 and those of the post-2015 development agenda; (c) establish robust monitoring and evaluation frameworks; (d) clarify roles and responsibilities and strengthen coordination mechanisms with relevant partners and stakeholders; and (e) remove and avoid imposing specific targets on public expenditure and maintain flexibility in fiscal policy and budget allocations in accordance with national priorities, specific characteristics and levels of development.

12. The Conference, *inter alia*, called upon the African Union Commission, in collaboration with the Economic Commission for Africa, the African Development Bank, the regional economic communities and other stakeholders, to support member States in incorporating Agenda 2063 into their national plans and urged member States, regional economic communities and the African Union Commission, in partnership with the Economic Commission for Africa, the African Development Bank and all regional and external stakeholders, to (a) consider the financing of Agenda 2063 in a manner that takes into account, first, domestic resource mobilization; second, the leveraging of existing and new financial intermediation vehicles to be created; and, third, access to finance facilitation resources such as project development funds and guarantee and risk-sharing facilities; (b) address the issues of illicit financial flows, natural resource rent maximization and regional capital market development; and (c) deepen the examination of the strategy for the domestic and external financing of Agenda 2063.

13. The Ministers further called upon the African Union Commission, the Economic Commission for Africa and the African Development Bank to organize a multi-stakeholder consultation on the first 10-year implementation plan of Agenda 2063 by 30 September 2015 and to employ South-South cooperation and triangular cooperation in support of the implementation of Agenda 2063. Additionally, they requested the African Union Commission and the Economic Commission for Africa to establish, by 31 March 2016, an economic development observatory, mandated with setting in place an early warning system for risks to African economies and proposing measures to mitigate their possible consequences.

**Third International Conference on Financing for Development
(resolution 929 (XLVIII))**

14. The Conference of Ministers endorsed the draft document entitled "Financing for development: Africa's perspectives" as a living document, taking into account inputs from the Chair's summary of the proceedings of the regional consultations held in Addis Ababa on 23 and 24 March 2015, and requested the African groups of negotiators in New York to use the draft document as an input in negotiating the outcome document of the third International Conference on Financing for Development.

African Regional Forum on Sustainable Development (resolution 930 (XLVIII))

15. The Conference of Ministers called upon the Economic Commission for Africa, in collaboration with the African Union Commission and other partners, to take all steps necessary to convene on a biennial basis the African Regional Forum on Sustainable Development and encouraged member States to scale up their commitment to and support for that Forum.

Data revolution and statistical development (resolution 931 (XLVIII))

16. The Conference of Ministers endorsed the report of the High-level Conference on the Data Revolution, adopted its recommendations and called upon member States, the African Union Commission, the Economic Commission for Africa, the African Development Bank and other development partners to implement it, bringing together diverse data communities and using a wide range of data sources, tools and innovative technologies, with a view to providing timely and disaggregated data for decision-making, service delivery, citizen engagement and information to drive Africa's social, economic and structural transformation.

17. The Ministers, inter alia, committed to providing adequate funds for the data revolution, requested the African Union Commission, the African Development Bank, the Economic Commission for Africa, the United Nations Development Programme, the United Nations Population Fund and the relevant agencies of the United Nations to create a working group for the development of indicators for the first 10-year implementation plan of Agenda 2063 (2014-2023) and requested the African Union Commission, the Economic Commission for Africa and the African Development Bank to develop an index measuring the emerging-economy status of African countries, in line, inter alia, with the guidance in Agenda 2063 and the common African position on the post-2015 development agenda.

African Social Development Index (resolution 932 (XLVIII))

18. The Conference of Ministers welcomed the efforts made by the Economic Commission for Africa in developing the African Social Development Index and recommended that the Index become a standard reference point for assessing progress in social development on the continent. The Ministers urged all stakeholders, including development partners, academic institutions and civil society organizations, to support African Governments in rolling out the Index and in building national capacities to use the tool as a monitoring and policy instrument throughout the continent and requested the Economic Commission for Africa to report to the Conference of Ministers at its March 2016 session on the implementation of resolution 932 (XLVIII).

Framework for a renewed United Nations-African Union partnership on Africa's integration and development agenda for 2017-2027 (resolution 933 (XLVIII))

19. The Conference of Ministers, inter alia, commended all stakeholders on the efforts to implement the 10-year capacity-building programme for the African Union, welcomed the initiative to formulate the framework for a renewed United Nations-African Union partnership on Africa's integration and development agenda for 2017-2027 and endorsed the framework as the successor to the 10-year capacity-building programme for the African Union. The Ministers also requested the African Union Commission to submit the framework to the Assembly of the African Union

for consideration and adoption at its twenty-fifth ordinary session in South Africa in June 2015 and for its subsequent transmittal to the General Assembly at its seventieth session in September 2015, for consideration and adoption as the new United Nations programme of support for the African Union. The Conference of Ministers called upon the General Assembly, bilateral and multilateral partners and the international community at large to lend their full support to the implementation of the framework in tangible and enabling ways.

Vienna Programme of Action for Landlocked Developing Countries for the Decade 2014-2024 (resolution 934 (XLVIII))

20. The Conference of Ministers, *inter alia*, endorsed the Vienna Programme of Action for Landlocked Developing Countries for the Decade 2014-2024 and requested the Executive Secretary of the Economic Commission for Africa to mainstream the Vienna Programme of Action into the programme of work of the Commission, as appropriate and within its mandate, and to submit analytical reports on the implementation of the Programme of Action, as called for in its paragraph 75.

Least developed countries in Africa (resolution 935 (XLVIII))

21. The Conference of Ministers, *inter alia*, called for the adoption and full operationalization of specific least-developed-country deliverables, namely the technology bank and investment promotion regimes dedicated to the least developed countries, commended the Economic Commission for Africa, the United Nations Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States, the United Nations Office for South-South Cooperation, the African Union Commission and other partner institutions on their commitment and technical expertise in taking forward the concerns and requests from African least developed countries and requested the Economic Commission for Africa, the Office of the High Representative, the African Union Commission and other partner institutions to continue to address the concerns and requests from African least developed countries, with a view to ensuring that those countries are able to satisfy the necessary graduation criteria.

22. The Conference of Ministers further requested the Economic Commission for Africa, in collaboration with the United Nations Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States, to hold the next biennial regional review of the implementation of the Programme of Action for the Least Developed Countries for the Decade 2011-2020 during the tenth Joint Annual Meetings of the African Union Specialized Technical Committee on Finance, Monetary Affairs, Economic Planning and Integration and the Economic Commission for Africa Conference of African Ministers of Finance, Planning and Economic Development.

Progress and further development of the African Risk Capacity Agency (resolution 936 (XLVIII))

23. The Conference of Ministers, *inter alia*, welcomed the progress report of the African Risk Capacity Agency on the establishment of its financial affiliate and on the drought insurance payments of \$25 million, which it had triggered and transferred to States members of the African Union in the Sahel region ahead of other aid. The Ministers requested the secretariat of the Agency, under the mandate

set out in article 2 of the Agreement for the Establishment of the African Risk Capacity Agency, to help States members of the African Union to improve their capacities to plan and prepare for and respond to extreme weather events and natural disasters, as well as to develop an outbreak and epidemic insurance product to complement the efforts of the African Centre for Disease Control and Prevention.

B. Economic Commission for Latin America and the Caribbean

24. The thirtieth session and the sixteenth extraordinary session of the Committee of the Whole of the Economic Commission for Latin America and the Caribbean were held in New York on 19 and 20 March 2015 and in Santiago on 16 April 2015, respectively. The Committee approved a number of resolutions relating to the programme of work of the Commission, summaries of which are set out below for the attention of the Council.

Application of Principle 10 of the Rio Declaration on Environment and Development in Latin America and the Caribbean (resolution 693 (PLEN.30))

25. The Committee took note of the "Santiago decision" contained in the report of the fourth meeting of the focal points appointed by the Governments of the signatory countries to the Declaration on the application of Principle 10 of the Rio Declaration on Environment and Development in Latin America and the Caribbean.

Forum of the Countries of Latin America and the Caribbean on Sustainable Development (resolution 694 (PLEN.30))

26. The Committee decided to convene an extraordinary session, to be held at the headquarters of the Commission in Santiago on 16 April 2015, in order to consider further a draft resolution on the Forum of the Countries of Latin America and the Caribbean on Sustainable Development and requested the secretariat to include with the letter convening the extraordinary session any information that might facilitate the consideration of the draft resolution.

27. The Committee decided to continue holding informal consultations with representatives of the member States of the Commission at United Nations Headquarters.

Forum of the Countries of Latin America and the Caribbean on Sustainable Development (resolution 695 (PLEN.16-E))

28. The Committee decided to launch a regional consultation process aimed at establishing the Forum of the Countries of Latin America and the Caribbean on Sustainable Development at the thirty-sixth session of the Commission in 2016. The Committee also decided that the regional consultation process would define the mandate, structure, operational modalities and expected outcomes of the Forum, taking into account the outcome of the intergovernmental process on the post-2015 development agenda and in accordance with the priorities and mechanisms related to sustainable development established by the Community of Latin American and Caribbean States. The following issues related, inter alia, to the proposed regional forum, should be defined at the regional consultation process: modalities for the participation of other relevant stakeholders, relation of the Forum to other regional cooperation and coordination mechanisms and schemes related to the post-2015

development agenda, contribution to development and national capacity-building for the implementation of the post-2015 development agenda, including through South-South cooperation, measurement tools for the achievement of the post-2015 development agenda, including through regional indicators, and budgetary implications.

29. The Committee requested the Executive Secretary to issue by December 2015 a report with recommendations on the issues to be defined at the regional consultation process.

C. Economic Commission for Europe

30. The sixty-sixth session of the Economic Commission for Europe was held in Geneva from 14 to 16 April 2015. A summary of the action taken is set out below for the attention of the Council.

Endorsement of the high-level statement on the post-2015 development agenda and expected sustainable development goals in the Economic Commission for Europe region

31. The Commission decided to (a) endorse the high-level statement on the post-2015 development agenda and expected sustainable development goals in the Economic Commission for Europe region, (b) agree that the statement outlined some of the Commission's main achievements and activities, but did not attempt to cover all Commission activities or areas of work, nor did it replace agreed mandates, including the 2005 reform of the Commission or Commission decision A/65 on the outcome of the review of the 2005 reform, (c) underline that it should not be seen as a prejudgment of negotiations on the post-2015 development agenda and expected sustainable development goals and (d) transmit the statement as a regional input to the 2015 high-level political forum on sustainable development and the 2015 annual ministerial review of the Council.

Endorsement of the Geneva United Nations Charter on Sustainable Housing

32. The Commission decided to (a) endorse the Geneva United Nations Charter on Sustainable Housing as a non-legally binding document and (b) transmit the Charter as a regional input to the United Nations Conference on Housing and Sustainable Urban Development (Habitat III) as requested in paragraph 6 of decision 24/14 of the Governing Council of the United Nations Human Settlements Programme (UN-Habitat) and as stipulated in paragraph 9 of General Assembly resolution 68/239.



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Regional cooperation

**Economic situation in the Economic Commission for
Europe region (Europe, North America and the
Commonwealth of Independent States), 2014-2015**

Note by the Secretary-General

The Secretary-General has the honour to transmit herewith a report on the economic situation in the Economic Commission for Europe region (Europe, North America and the Commonwealth of Independent States) for the period 2014-2015.

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Economic situation in the Economic Commission for Europe region (Europe, North America and the Commonwealth of Independent States), 2014-2015

Summary

Economic performance in the Economic Commission for Europe (ECE) region improved somewhat in 2014, with gross domestic product (GDP) growth accelerating to 1.8 per cent from 1.2 per cent in 2013. However, there were marked differences across different subregions. The decline in oil prices was supporting the global recovery, including in most countries in the ECE region. However, for a number of energy-exporting economies in the Commonwealth of Independent States, notably the Russian Federation, this development represented a significant shock.

The return to growth of the eurozone, which posted a modest 0.8 per cent GDP increase, primarily explained the overall acceleration. After years of austerity, fiscal policy was becoming less of a drag on economic activity. However, growth rates across the eurozone varied widely, and, despite some progress, financial fragmentation remained. In the European Union countries outside the eurozone, the expansion of economic activity was faster, notably in the United Kingdom of Great Britain and Northern Ireland, which was a major contributor to overall expansion in the European Union. The improvement of economic performance in the new European Union member States in Central Europe was the result of the new dynamism in the eurozone, stronger domestic demand and the use of European Union structural funds. While output in the eurozone remained well below pre-crisis levels, the recovery in the United States of America appeared to gain further momentum, with GDP posting a 2.4 per cent increase and with significant job creation. Divergent expectations regarding economic prospects and the future path of interest rates led to the steady appreciation of the US dollar vis-à-vis the euro, which accelerated in early 2015. In the eurozone and a number of advanced European countries, monetary authorities introduced negative interest rates to address deflationary pressures.

Countries with economies in transition suffered a downturn in 2014. In South and Eastern Europe, this development reflected the impact of major natural disasters. In the Commonwealth of Independent States, the conflict in Ukraine and related geopolitical tensions contributed to a decline in GDP growth from 2.0 to 0.7 per cent. Sanctions against the Russian Federation increased financing costs and undermined confidence, but falling oil prices were the main factor affecting economic performance. Diminished economic prospects in the Russian Federation had a negative impact on other countries in the Commonwealth of Independent States through trade, investment and remittances channels. Currencies in the Commonwealth weakened sharply in late 2014 and early 2015, as a result of lower energy prices, capital outflows and the transmission of shocks across the subregion.

Economic prospects for 2015 in the ECE region were mixed. Activity was expected to accelerate further in the advanced countries. By contrast, output was likely to contract in the Commonwealth of Independent States as the impact of low oil prices was felt more fully. Significant challenges remain. Advanced countries need to address the implications of adverse trends on productivity growth and ageing. In the eurozone, the recovery remains fragile and Greece's crisis could become a threat to stability. Geopolitical tensions have not yet disappeared in the Commonwealth of Independent States, which compound the fragilities created by insufficient economic diversification.

I. Introduction

1. The Economic Commission for Europe (ECE) region includes 56 Member States, with very different levels of development and economic situations. It contains most of the world's advanced countries, but also a number of low- and lower-middle income economies among the European and Central Asian countries with economies in transition. For analytical purposes, the present report will divide this large and diverse number of countries into different subregions and group them into two major categories: advanced economies and emerging economies. Advanced economies include North America, composed of Canada and the United States of America; the countries that are part of the eurozone; and other advanced European economies. Emerging economies include new European Union member States that have not yet joined the eurozone; non-European Union countries in South-Eastern Europe, including Turkey; and countries belonging to the Commonwealth of Independent States and Georgia.

II. North America

2. Economic performance in the United States of America improved slightly in 2014, with the pace of expansion gathering momentum throughout the year following a weak start, owing to a particularly harsh winter and the reversal of previous inventory build-up. GDP increased by 2.4 per cent, up from 2.2 per cent in 2013. Consumption was robust, increasing by 4.2 per cent at a seasonally adjusted annual rate in the last quarter of 2014 and 2.5 per cent for the whole year. Spending was boosted by lower inflation, employment creation and, in the last quarter, lower energy prices. Increases in household net worth, resulting from higher asset prices and lower levels of debt, will provide further impetus to consumer spending. Unlike the eurozone, where household debt remained high, write-offs and restructuring facilitated deleveraging, thus improving the financial situation of households. Investment growth was also robust, with private fixed investment increasing by 5.2 per cent. However, this is still relatively low for an expansionary phase. As economic activity gathers momentum and business sentiment improves, the pace of investment is likely to accelerate.

3. Labour market dynamics were highly positive. The unemployment rate fell to 5.6 per cent by the end of 2014 amid rapid job creation. The 1.2 percentage point drop in the unemployment rate was the fastest since 1984. Monthly average non-farm employment rose to 246,000, up from 194,000 in 2013. Around two thirds of the decline in overall unemployment was the result of falling long-term unemployment. Despite rapid employment growth, there was little pressure on wages, which suggested continued labour market slack in 2014. As the recovery gathers strength, faster wage growth should be expected. The recovery was also drawing more people into the labour force, increasing the participation rate, which reached 62.9 per cent in February 2015. However, the ageing population constitutes a powerful secular trend, exercising a downward pressure on the participation rate.

4. The acceleration of economic activity did not translate into price pressures. Consumer price inflation fell to 0.7 per cent by the end of December 2014, down from 1.5 per cent in 2013. Most of this decline was the result of falling energy prices. In February 2015, headline inflation was negative, with prices falling by 0.1 per cent on an annual basis. Declining inflation raised the value of real wages,

which increased slowly in nominal terms. However, excluding energy and food prices, there was practically no change in headline inflation compared with the previous year, with a decline from 1.7 per cent to 1.6 per cent in the year to December 2014, rising to 1.7 per cent in February 2015.

5. As the expansion in the United States gathered momentum, expectations of monetary tightening, in contrast with weaker growth in other countries, resulted in the appreciation of the dollar. The pace of appreciation, in particular in relation to the euro, accelerated in early 2015. This trend was expected to continue, with a negative impact on the performance of exports. While the growth of exports of goods and services in real terms remained roughly unchanged at 3.1 per cent in 2014, imports increased by 3.9 per cent, up from 1.1 per cent in 2013, as a result of the acceleration of economic activity and the loss of competitiveness due to the appreciation of the dollar. The current account deficit, however, remained unchanged at 2.4 per cent of GDP, partly reflecting the improvement in the terms of trade resulting from lower energy prices.

6. The United States has gone through a significant fiscal consolidation effort in recent years, with the federal deficit-to-GDP ratio falling by seven percentage points in the past five fiscal years. The deficit fell to close to 5 per cent of GDP in 2014, as the acceleration of growth boosted revenues and further consolidation measures to improve public finances were adopted. However, fiscal policy became less of a drag on economic activity. The reduction of the deficit had a contractionary influence in recent years, in particular in 2013, as various countercyclical fiscal initiatives adopted after the recession were removed. Government spending is expected to pick up in 2015, which will support the acceleration of economic activity.

7. Monetary policy remained very supportive of economic activity throughout 2014, but there was a shift towards normalization. New purchases of long-term securities by the Federal Reserve were gradually reduced until they came to an end in October 2014. Although new purchases had been discontinued, the accumulated holdings continued to influence long-term interest rates.

8. Long-term interest rates, as measured by yields on 10-year bonds, fell to 2.2 per cent in December 2014, down 3 per cent from 2013, despite the improvement of the labour market and the end of new asset purchases by the Federal Reserve. Yields continued to fall in early 2015, dropping to 1.9 per cent in April. The absence of inflationary pressures indicated that interest rates would remain low for an extended period. Although the Federal Open Market Committee was expected to raise its policy rate in late 2015, it signalled that it could be patient on the normalization of monetary policy and that any changes would depend on future economic data. Leaving behind a period of zero interest rates will pose a challenge for policymakers as they strive to support the recovery while taming emerging price pressures.

9. While the expansion of the United States economy seemed to be gathering momentum and output is likely to accelerate further in 2015, there are a number of risk factors that could undermine economic performance. The appreciation of the dollar results in a loss of competitiveness, which has already had an impact on the growth of exports. A period of ultra-loose monetary policy is coming to an end, and the reaction of financial markets may lead to new turbulence and negative spillovers for the country. Low rates can lead to excessive risk-taking, creating vulnerabilities that become apparent only under new financial conditions.

10. Over the medium term, growth prospects are undermined by low growth in productivity. The deceleration in productivity preceded the financial crisis of 2008-2009. Productivity growth in the non-farm business sector dropped to 1.4 per cent during the period 2007-2014, down from 2.6 per cent during the period 2000-2007. Ageing and the related decline in labour participation and lower productivity increases have reduced the potential growth rate.

11. Canada benefited from the recovery in the United States and a weaker currency, with growth accelerating to 2.5 per cent in 2014, up from 2.0 per cent in 2013. The expansion was driven by strong household consumption, which rose 2.8 per cent, and robust external demand, with exports increasing 5.4 per cent. By contrast, business fixed investment was almost flat, posting a 0.9 per cent increase. Monetary policy has been accommodative in the absence of price pressures. Inflation ended the year at 1.5 per cent and declined further to 1 per cent in February 2015, driven largely by falls in gasoline prices. Fiscal consolidation has had limited impact on growth. Despite recent good performance, significant financial fragilities remain, in particular large household debt and growing imbalances in parts of the housing market. Canada is a net oil exporter, and persistent low oil prices, while benefiting consumers, will have an overall negative impact on economic prospects.

III. Advanced European countries

A. Eurozone

12. Unlike other advanced economies, the eurozone has undergone a two-dip recession. The economic crisis in 2008-2009 was followed by a short recovery in 2010-2011 before the sovereign debt crisis prompted a new downturn. After two years of contraction, the eurozone returned to growth in 2014. However, economic expansion was sluggish, with GDP increasing by only 0.8 per cent. Slow recoveries are typical of deleveraging experiences after financial crises, but the European downturn has been remarkable. Six quarters after the beginning of the recovery in the second quarter of 2013, GDP in the eurozone remained at 2.2 per cent, below the pre-crisis level of the first quarter of 2008. Output in the periphery of the eurozone (Greece, Ireland, Italy, Portugal and Spain) is still around 9 per cent, below the pre-crisis level.

13. Economic performance was very unequal, with large variation in growth rates across countries. The expansion was more rapid in the new European Union member States that have adopted the euro, Germany and some countries on the periphery, such as Spain and Ireland. The latter was the fastest-growing economy in the eurozone, with GDP increasing by 4.8 per cent. The Italian economy continued to shrink for the third consecutive year, and performance in France was poor.

14. Economic activity is expected to pick up in 2015, supported by oil prices, a more accommodating monetary policy, a slower pace of fiscal consolidation and the depreciation of the euro, which accelerated in late 2014. There are marked differences in projections for 2015 across countries, with stronger performance in Germany and Spain and much weaker growth expected in France and Italy. However, diminished prospects in emerging markets are weighing down exports.

High unemployment rates in some countries and continued deleveraging by corporates and households will constrain the recovery.

15. Consumption was the main driver of the expansion of economic activity, posting a 1.4 per cent overall increase in 2014. However, in some economies consumption has responded weakly to the acceleration of income growth. Trends in inequality have also diverged across the eurozone. The ratio of the share of the disposable income of the top 10 per cent to the bottom 10 per cent has increased since 2008 in Austria, Greece, Italy and Spain, but declined in Belgium, Finland, the United Kingdom of Great Britain and Northern Ireland and Portugal.

16. In contrast with the relative buoyancy of consumption, investment remained sluggish, with gross fixed capital formation posting a 0.3 per cent increase. The fixed investment downturn has been very severe since the beginning of the global financial crisis, but it is no longer a drag on economic growth. The weakness of investments is greater than what has been observed following other financial crises, and, unlike the experience of other advanced countries, the post-crisis recovery in investment remains slow. Multiple factors constrain investment, including low demand, low capacity utilization rates, economic uncertainty and the ongoing deleveraging process to undo previous debt excesses. Fiscal consolidation and the end of the housing bubble have depressed further investment. As a result of this continued weakness, the investment-to-GDP ratio is about 2.5 percentage points below the average of the pre-crisis period of 1998-2007.

17. The ongoing improvement of financial conditions creates better prospects for investment. Confidence in the banking sector has strengthened, owing in part to the results of the European Central Bank Comprehensive Assessment, which was released in October 2014. Unlike the United States, where the situation had been addressed earlier in a resolute way, the unresolved situation of the European banking sector weighed negatively on confidence. This assessment, however, revealed that eurozone banks needed only small capital injections to maintain appropriate capital cover under adverse circumstances.

18. Nonetheless, the situation remains mixed and presents considerable risks. Bank lending to the private sector continued to decline in 2014, albeit at a slower pace. The contraction of lending was driven by loans to the non-financial corporate sector, while the growth of loans to households was positive. Lending rates have fallen significantly since the summer of 2014. However, non-performing loans in some countries remain high, which restricts profitability and lending, and creates vulnerability to shocks. Financial fragmentation persists. Lending costs for corporations on the periphery of the eurozone are still high, and, despite some convergence, there remains a significant gap with core countries.

19. The push from exports was also limited, and the effect of net external demand on growth in 2014 was roughly neutral. The depreciation of the euro will boost exports, but the contribution to overall growth will be limited, as the eurozone is a relatively closed economy in which exports account for around only one fifth of total output.

20. The current account surplus of the eurozone remained large in 2014, representing an estimated 2.8 per cent of GDP. It increased further in early 2015 as a result of the impact of falling oil prices. However, country positions are quite different. Germany, with a surplus equivalent to around 8 per cent of its GDP,

accounts for the bulk of the overall surplus. Ireland, Luxembourg and Slovenia had surpluses close to 5 per cent of GDP. By contrast, Finland, France and Greece posted deficits of around -1.0 to -2 per cent. A sharp correction in the current account imbalances in the eurozone was observed in 2007-2008, with the adjustment falling on the debtor countries on the periphery. The narrowing of imbalances in those economies reflects not only the impact of austerity policies on domestic demand, but also, in particular in Ireland and Spain, improvements in competitiveness.

21. Unemployment remained at elevated levels (11.3 per cent in February 2015, down from 11.8 per cent in 2014), with very large differences across countries. However, the pickup in employment was relatively fast, given moderate improvements in economic activity, which may reflect the impact of labour market reforms in some countries. Labour costs growth remained moderate, thus facilitating job creation. In late 2014, the construction sector was a net job creator for the first time since the 2008-2009 crisis.

22. The unemployment rate for young people, which is more sensitive to economic circumstances, rose significantly in many countries during the recent crisis, and the improvements observed in 2014 and early 2015 were limited. Another major policy concern is the increase in long-term unemployment (i.e., people who remain unemployed for more than 12 months). Long-term unemployment is associated with loss of skills and not easily absorbed when activity picks up. Despite the lack of economic dynamism in recent years, the labour force participation rate has risen over the past decade, stabilizing at around 64 per cent in 2014. Of the largest countries in the eurozone, Spain saw its participation rate fall in 2014, which reflected in part the effect of migratory outflows.

23. Inflation in the eurozone has been well below the European Central Bank price stability objective (below, but close to, 2 per cent) for an extended period. It had been declining and became negative in December 2014. Lower energy prices drove the fall, but core inflation, which strips out the impact of energy and unprocessed food, was also very low, highlighting the existence of persistent slack. There is little indication as yet that current deflation is feeding into expectations of persistent falls in prices in the future, leading to the postponement of purchase decisions. However, deflation remains a major policy concern and adverse shocks could lead to entrenched expectations of price declines. Falling prices result in higher real interest rates and larger debt ratios, as they contribute to slower growth in nominal terms. Although nominal rates have fallen, real interest rates are higher in countries where unemployment is higher, owing to the impact of deflation, thus holding back the recovery in countries where there is more need for it. The depreciation of the euro, which has been prompted by expectations of a growing gap with the United States in terms of monetary policy stances, will help to offset deflationary trends. On the other hand, structural reforms in product and labour markets can contribute to deflationary trends in the short run by increasing competition and reducing price pressures.

24. After years of tightening, the fiscal policy stance was roughly neutral in 2014. Although the direction points towards further fiscal consolidation, a number of countries have been given additional time to meet their fiscal targets. Excessive deficit procedures for six countries were closed in 2014, reflecting progress in reducing their deficits. The overall deficit in the eurozone fell to 2.6 per cent of

GDP in 2014, down from 2.9 per cent in 2013, but the debt-to-GDP ratio continued to climb. The deficit reduction has been prompted by contention with regard to expenditure, declining costs in public debt financing and increased economic activity. Long-term government bond yields decreased dramatically in 2014 and early 2015. Spreads between sovereign bonds in Germany and those in other countries were relatively unaffected by political and market uncertainties concerning Greece in late 2014 and early 2015.

25. There have been some initiatives that allow more flexibility in fiscal policy and increases in public expenditure to support long-term growth. The European Union investment plan, which was presented in November 2014, aims to mobilize investments equivalent to 2.5 per cent of European Union GDP in 2015-2017 in infrastructure and small and medium-sized enterprise projects. However, the impact of this plan will not be felt until 2016.

26. Unlike the United States, where a more expansionary fiscal policy has been deployed, the eurozone has relied on a combination of loose monetary policy and structural reforms to promote economic recovery. As the impact of structural reforms is limited in the short run, this places a heavy burden on monetary policy to support demand. In 2014, the European Central Bank expanded the range of extraordinary measures to fight deflation. After two cuts, the main refinancing rate fell to 0.05 per cent and the marginal lending rate to 0.30 per cent. Since June 2014, the Bank has applied a negative rate on its deposit facility (-0.20 per cent).

27. One of the unconventional measures introduced by the European Central Bank concerns the so-called targeted longer-term refinancing operations, under which banks can borrow up to 1 trillion euros at very advantageous conditions if they meet lending benchmarks set by the Bank. However, existing monetary policy measures appeared insufficient to restore the balance sheet to its size at the beginning of 2012 (around 3 trillion euros). As banks repaid the European Central Bank long-term loans taken out during the crisis, the balance sheet had fallen to just above 2.2 billion euros by the end of 2014. In order to tackle this question, the Bank initiated a programme of quantitative easing in January 2015, which aimed to purchase assets at a rate of 60 billion euros per month.

28. Purchasing private sector securities will not be sufficient to expand the balance sheet, given the dominance of bank lending in Europe. Therefore, this expanded asset purchase programme envisages the acquisition of government and other public securities, in addition to private asset-backed securities and covered bonds. This has stirred controversy regarding the monetary policy character of this initiative and its impact on the continued willingness of European Governments to introduce reforms. Most of the asset purchases will be sovereign debt with investment grade, although some additional eligibility criteria can be used for other countries that fall below that grade, but where an agreed programme of reforms is in place.

29. Quantitative easing can have a stimulative effect through the impact on the exchange rate. It also indirectly increases fiscal space by reducing financing costs for Governments. Quantitative easing also contributes to lifting the prices of financial assets. However, the private sector in the eurozone is more reliant than those in the United States and the United Kingdom on banking finance compared with on capital markets, so the impact on funding costs for corporations would be more limited than that of similar initiatives used in those countries.

30. Although the economic situation has improved, a number of risks for the eurozone cloud the economic outlook. Part of the stimulative effect of lower oil prices was being unwound in early 2015, owing in part to the depreciation of the euro. A less stringent fiscal policy in support of the recovery will need to be reconciled with a gradual reduction of public debt in some countries over the medium term. The uncertainties regarding the future programme of support for Greece have had a limited impact on sentiment and the eurozone is now in a better situation to deal with further turmoil in that country than in 2012. However, the negative implications of a scenario that may lead to the exit of Greece from the eurozone would be very significant.

31. Despite some expected acceleration, growth in 2015 will be insufficient to make a significant impact on unemployment rates. Increases in structural unemployment reduce potential growth and social cohesion. Therefore, they demand particular policy attention, including through a range of supply-side initiatives to address youth and long-term unemployment. Population ageing and declining productivity growth require structural reforms to address medium-term challenges to growth.

32. Despite its recent troubles, the eurozone continued to expand. Lithuania adopted the euro on 1 January 2015, becoming the nineteenth member of the eurozone. Lithuania had been operating a peg to the euro since 2002. This latest enlargement will not have a major impact on eurozone aggregates, as the country represents only around 0.4 per cent of the combined GDP.

B. Other advanced countries

33. The United Kingdom continued to show greater dynamism than the European overall, accounting for around one third of the growth in total output in 2014, far above its weight in European Union activity. GDP increased by 2.8 per cent in 2014, up from 1.7 per cent in 2013. The expansion became more balanced, as the acceleration of business investment added to the existing momentum of consumer demand. Net external demand was a modest drag on economic activity. Unemployment fell to 5.8 per cent in January 2015 from 7.3 per cent in 2014.

34. Despite the pickup in growth, inflation remained low, with no changes in prices in 2014 and up to February 2015. The appreciation of the pound in 2014, as a result of the acceleration of growth and expectations of monetary policy normalization, contributed to a reduction in price pressures. However, housing prices increased throughout the country, and concerns about affordability and related financial stability risks resurfaced. Net public sector borrowing fell by half, to 5.0 per cent, in the 2014-2015 fiscal year, compared with the 2008-2009 post-crisis peak. Monetary policy remained accommodative, with the main policy rate at 0.5 per cent since 2009 and an ongoing programme of quantitative easing worth 375 billion pounds. A benign inflationary outlook implies that interest rate hikes are not imminent.

35. In Switzerland, economic activity expanded at a rate of around 2 per cent in both 2013 and 2014. The Swiss National Bank abandoned the minimum exchange rate of 1.20 Swiss francs per euro in January 2015, which resulted in a sharp appreciation of the national currency. This will exert a downward pressure on prices and depress the economic outlook. Consumer prices had been roughly unchanged over the past two years but growth became negative in November 2014. The rate of

decline accelerated further, with prices falling by 0.9 per cent in March 2015 over the past 12 months. The removal of the floor with respect to the euro was accompanied by a further move into negative territory of the interest rate on sight deposit account balances to -0.75 per cent in order to reduce appreciating pressures and the resulting tightening of monetary conditions.

36. Denmark, which returned to growth after two years of contraction with a 1 per cent GDP increase in 2014, was forced to undertake strong measures to preserve the peg of its currency to the euro. The pressure increased following the decision of the Swiss National Bank to remove the exchange rate floor. Monetary authorities repeatedly cut rates in early 2015, bringing the rate on its certificates of deposit to -0.75 per cent.

37. In Sweden, growth picked up, with GDP increasing by 2.1 per cent in 2014, up from 1.3 per cent in 2013, driven by strong domestic demand. Despite accelerating economic growth, which has been accompanied by rapid house price increases, inflation has been negative for the past two years. Monetary authorities have resorted to unconventional policy measures to tackle deflationary pressures, which have been exacerbated by the appreciation of the exchange rate. After a decision in February 2015, the Swedish Riksbank was the first central bank to set a negative main policy interest rate, which is now -0.25 per cent.

IV. Emerging economies

A. New European Union member States

38. Economic performance in the new States members of the European Union that remain outside the eurozone was significantly better than in the old European Union member States, although with significant differences. Growth accelerated in 2014, driven by consumer demand in most countries, with aggregate GDP increasing by 2.9 per cent from 1.3 per cent in 2013.

39. The return to growth in the eurozone provided further impetus to economic expansion. External funding conditions improved somewhat, supported by current European Central Bank policies. However, there were funding reductions by Bank for International Settlements reporting banks in varying degrees in nearly all countries. Inflation declines were widespread as a result of falling energy prices and low imported inflation from the eurozone. This subregion also faced some particular challenges, as the impact of Russian countersanctions was stronger owing to closer trade relations.

40. Poland, the largest economy in the subregion, grew by 3.3 per cent in 2014, a sharp increase compared with the 1.7 per cent increase posted in 2013. Investment soared by around 9 per cent, while consumption rose by around 3 per cent. European Union structural funds, which are provided on a co-investment basis, played an important role in driving up investment. In sharp contrast with the vigour of domestic demand, net external demand, which had been driving economic expansion in the past three years, became a drag on growth. This poor external performance reflected the acceleration of domestic demand, which increases imports, but also the strength of the national currency and the importance of the Russian and Ukrainian markets for Polish exporters. Inflation, which had been very

weak for some time, became negative in mid-2014. Despite the ongoing deflationary trends, the National Bank of Poland maintained the interest rate at 2.5 per cent for some time before cutting it to 2 per cent in October 2014. A further cut to 1.5 per cent in March 2015 was likely to mark the end of the easing cycle.

41. The economy of the Czech Republic returned to growth in 2014, with GDP posting a 2 per cent increase after two years of decline. However, GDP still remained below the 2008 level. Consumption accelerated, and investment, which had fallen sharply in 2014, bounced back strongly, with gross fixed capital formation increasing by 4.5 per cent. By contrast, there was no contribution of net external demand to growth. Inflation was very low and became negative in early 2015, driven by low energy prices. After a strong fiscal consolidation effort over the past five years, some relaxation helped the recovery. This shift in policy was expected to continue in 2015, supporting further economic expansion and the use of available European Union structural funds. Monetary policy has been loose, with the benchmark policy rate set at 0.05 per cent, since November 2012. However, commercial lending remains subdued and has increased mainly owing to growing housing loans. Both corporations and households have low levels of debt, which creates a good foundation for expansion as the recovery takes hold.

42. Economic growth accelerated sharply in Hungary in 2014, with GDP posting a 3.6 per cent increase, compared with 1.5 per cent in 2013. European Union-related payments, which accounted for around 6 per cent of GDP, were an important factor driving this expansion. Investment rose by around 14 per cent, boosted by this external injection and the completion of a number of large public investment projects. Consumption was also buoyant, driven by rapid employment and growth in real wages, which was supported by low inflation. The extraordinary performance of investment was unlikely to be repeated in 2015, with a deceleration trend observed since mid-2014. Net external demand was an important contributor to growth in the period after the crisis, but had declined in recent years and turned negative in 2014. Foreign exchange mortgage loans of households, which account for around 10 per cent of GDP, will be converted into national currency bonds. That initiative, which was adopted before the sharp appreciation of the Swiss franc against the euro, will help to defuse financial risks.

43. Economic performance was weaker or experienced a setback in the new European Union member States of South-Eastern Europe. In Romania, GDP growth slowed to 2.9 per cent, down from 3.4 per cent in 2013. While consumption continued to boom, as a result of growing real wages, investment declined, albeit at a slower pace than in 2014, driven by fiscal consolidation and continued difficult access to financing. However, the main reason for the observed deceleration was the diminished contribution of net external demand to growth. Inflation declined throughout the year, ending at 1 per cent in December 2014, and falling further in early 2015. Romania did not take full advantage of European Union available funding, with a rate of utilization of structural and cohesion funds of just around half of the total by the end of 2014. While fiscal consolidation continued, monetary policy eased and the National Bank of Romania cut interest rates from 4 per cent in December 2013 to 2.25 per cent in February 2015.

44. Economic expansion accelerated in Bulgaria, but remained unimpressive, with GDP increasing by 1.7 per cent in 2014, up from 1.1 per cent in 2013. Household consumption resumed growth and became the major engine of economic dynamism,

boosted by rapid increases in real wages. The economic problems in Russia and Ukraine helped to explain the modest growth of exports, which was possible only thanks to increased sales to European Union markets. Despite increasing domestic demand, Bulgaria posted one of the largest declines in prices in the European Union, which fell by 2 per cent by the end of 2014. Public finances were negatively affected by the need to partially cover guaranteed deposits of a failed bank.

45. Croatia's economy had been contracting since 2009, with GDP falling by 0.4 per cent in 2014, against a 0.9 per cent decline in 2013. Domestic demand remained depressed, and only net external demand made a positive contribution to growth. Unemployment was among the highest in the European Union: around 17 per cent by the end of 2014. The public deficit was roughly unchanged, with an estimated gap of 5 per cent of GDP. The appreciation of the Swiss franc against the euro had implications for around 40 per cent of housing loans. A decision was made to shelter households and pass the costs on to the banks, which would add to the troubles of a sector with a large and growing share of non-performing loans.

46. The economic fortunes of these countries are closely associated with the performance of the eurozone. Disappointment over the expected acceleration in the eurozone will take a toll on growth prospects; however, in most countries, domestic demand appears solid and supports the acceleration of economic expansion. Investment is likely to pick up, benefiting from special lending schemes in some countries, European Union structural funds and low rates. Although some countries are particularly dependent on foreign funding conditions, access to financing has improved and all of them run current account surpluses or small deficits, which reduces external vulnerability. The new States members of the European Union are particularly exposed to a disruption of supplies of gas imports from Russia, which could result from a worsening of geopolitical tensions.

B. Non-European Union South-Eastern Europe

47. Economic activity in South-Eastern Europe (excluding Turkey) slowed sharply in 2014, with aggregate GDP almost flat, after posting 2.2 per cent growth in 2013. This was the result of major natural disasters in Bosnia and Herzegovina and Serbia. In other countries, stronger external demand drove an improved performance. The recovery of domestic demand, after years of contraction, was modest. The main exception was Serbia, where both consumption and investment declined, while net exports were flat, resulting in a GDP fall of almost 2 per cent.

48. While infrastructure projects supported domestic demand, high levels of unemployment remained a depressing factor. Low employment rates are a characteristic feature of the subregion, with a significant gender gap, reaching around 20 percentage points in Albania. Weak domestic demand and imported deflation resulted in very low inflation. In Bosnia and Herzegovina, prices declined for the second consecutive year. In Albania, the absence of price pressures allowed interest cuts, despite the observed acceleration in economic activity.

49. Fiscal consolidation remained a persistent policy challenge in the subregion, where slow growth and large spending commitments undermined public finances. The public deficit grew further in Serbia, to around 7 per cent, but the International Monetary Fund (IMF) programme adopted in February 2015 envisaged a path of reduction over the next three years that would create further challenges to economic

growth. In Bosnia and Herzegovina, fiscal consolidation was complicated by the impact of the floods. Unlike other countries in the subregion, the former Yugoslav Republic of Macedonia had the policy space to pursue a more expansionary fiscal policy resulting in an active public investment programme.

50. The subregion showed significant external vulnerabilities, with large current account deficits that widened in most countries in 2014. While the decline in oil prices had a positive impact on most countries, this fall helped to further increase the current account deficit in Albania, which was already at double-digit levels. In Montenegro, the bankruptcy of an aluminium smelting factory damaged export capacity and further contributed to the increase in the largest current account deficit in the region. This was somewhat offset by foreign direct investment inflows of around 10 per cent, linked mainly to the development of the tourism industry.

51. High levels of unemployment have a structural character and will continue to constrain domestic demand and growth in the subregion. Future economic prospects largely depend on the performance of the European Union economies, given the lack of domestic dynamism. In particular, a number of countries have significant trade links with Greece. Large external and public deficits restrict policy space. The banking sector is in poor shape, with high levels of non-performing loans. Structural reforms are required to create a business environment that attracts investments to raise productive capacity, absorb unemployment and address infrastructure bottlenecks.

52. In Turkey, growth slowed in 2014, with GDP increasing by 2.9 per cent, compared with 4.2 per cent in 2013. The expansion was driven by external demand, with exports increasing by 6.8 per cent against flat imports. By contrast, gross fixed capital investment declined by 1.3 per cent, while household consumption increased by the same amount. The current account deficit shrank, but remained close to 6 per cent of GDP. That gap is expected to contract further in 2015 as the impact of low energy prices becomes more visible. Large financing needs make Turkey vulnerable to changes in international investor sentiment. Inflation was well in excess of the Central Bank of Turkey's target, reaching 7.6 per cent in March 2015. The Bank is running a loose monetary policy, with real interest rates close to zero. This has driven the depreciation of the currency, which has been a major source of inflationary pressures, despite the existing slack in the economy.

C. Commonwealth of Independent States

53. Economic growth slowed sharply in the Commonwealth of Independent States in 2014, as the subregion was affected by major shocks, including geopolitical tensions and a large fall in oil prices, which halved in the second part of the year. Aggregate GDP rose by less than 1 per cent, driven by the poor performance of the Russian economy, which rose by only 0.6 per cent, down from 1.3 per cent in 2013, and a sharp output decline in Ukraine.

54. In the Russian Federation, the imposition of sanctions by the United States and the European Union in relation to the conflict in Ukraine made access to external finance more difficult and created uncertainty, thus contributing to falling investment. Monetary tightening, in response to strong depreciating pressures, resulted in sharp increases in financing costs in late 2014. There were no major public investment projects to offset the reluctance of private business to invest in those adverse circumstances. Those negative influences compounded the persistent

weakness of investment observed in recent years. Household consumption, which had been the main driver of Russia's economic expansion, started also to lose steam, with a marked deceleration that reflected declining wage and retail lending growth throughout the year. Real disposable income contracted for the first time since 1999. The Russian Federation avoided a recession in 2014 thanks to the contribution of net external demand, as the devaluation of the rouble, which accelerated in the second half of the year, cut imports. A weaker rouble and the trade restrictions introduced by the Russian Federation as a response to Western sanctions benefited some manufacturing sectors.

55. In Ukraine, GDP declined by 6.8 per cent, which was largely explained by shrinking activity in Donetsk and Luhansk, the industrial regions directly affected by the conflict, where industrial output fell by more than 30 and 40 per cent, respectively. Consumer demand declined, as rapid inflation eroded purchasing power and a weakened banking system reduced household credit. Investments fell by around a quarter. The devaluation of the national currency and shrinking domestic demand drove down imports sharply. Improved net external demand, despite falling exports, avoided a stronger output contraction.

56. Belarus managed to achieve positive growth in 2014, despite the deterioration in performance in the last part of the year, which was driven by the slowdown in the Russian Federation, its main trading partner, and Ukraine's troubles. The Russian Federation imposed restrictions in mutual trade to avoid the re-export of Western goods affected by Russian countersanctions. Although Belarus is not an oil producer, the decline in oil prices resulted in loss of earnings from re-export agreements concluded with the Russian Federation.

57. The decline in the price of hydrocarbons and the loss of competitiveness brought about by the depreciation of the Russian rouble drove the deceleration of economic activity in Kazakhstan in 2014. Further economic slowdown was expected in 2015, as the resumption of oil production in Kashagan was delayed and low oil prices persisted. Performance in other energy exporting countries varied. While a decline in oil extraction contributed to the observed slowdown in Azerbaijan, there was rapid growth in Uzbekistan and Turkmenistan, where the development of the Galkynysh gas field provided further momentum to economic activity. In most of the remaining countries in the subregion, the impact of the downturn in Russia, in particular through lower remittances, dominated the positive effect of lower energy prices.

58. Despite the economic slowdown, there was little impact on the labour market in the Russian Federation, with the unemployment rate reaching historic lows in 2014. The tightness of the labour market is partly explained by the gradual decline in the working-age population. The flexibility of real wages, which continued to fall in early 2015, provided an adjustment mechanism. In addition, the repatriation of migrant labour from other countries of the Commonwealth of Independent States partly absorbed shrinking labour demand, but had negative effects on remittances to the poorest countries in the region, where unemployment rose rapidly. In Kazakhstan, job creation was sufficient to absorb the increase in the active population.

59. Inflationary pressures emerged throughout the subregion as a result of the depreciation of the national currencies. In the Russian Federation, where the currency lost almost half of its value in relation to the United States dollar in 2014,

the food import ban introduced as a response to Western sanctions was an additional contributing factor. As a result, inflation reached 11.4 per cent by the end of December, returning to a level not seen since 2008. Inflation accelerated further in early 2015, reaching more than 16 per cent in February, with food inflation above 20 per cent. However, the strengthening of the rouble initiated in February is expected to contribute to moderate price pressures, so inflation may be close to its peak.

60. In Belarus, the weakening of the exchange rate further boosted already high inflation levels, despite the introduction of price controls in late 2014. Public sector wages were increased in response to currency depreciation, fuelling further price pressures. In Ukraine, inflation surged as the national currency plummeted, bringing the rate of annual change to double digits, in sharp contrast with the mild deflation observed in 2013. By contrast, Kazakhstan managed to keep inflation within target levels, supported by a good harvest.

61. Monetary authorities throughout the subregion addressed depreciating pressures through policy tightening. In the Russian Federation, the pressure on the rouble intensified in the last months of the year, as the decline of oil prices accelerated and sanctions reduced access to foreign exchange. Net private capital outflows reached record levels, reaching 7 per cent of GDP, almost half of which took place in the last quarter of 2014. The Central Bank of Russia hiked rates by 100 basis points in early December and, less than a week later, by 650, to 17 per cent. In January 2015, the Bank cut rates by 200 basis points, but foreign exchange interventions were required to support the rouble in view of the market reaction. As there were signs of some softening in inflationary pressures amid rouble strengthening, a 100 basis points cut was introduced in March 2015, which was likely to be followed by further reductions.

62. The National Bank of Ukraine was forced to hike rates sharply and introduced restrictions on foreign currency transactions, including a 75 per cent surrender requirement on export earnings, to halt currency depreciation. The authorities had few instruments to address the situation, with official reserves falling to a critical level of around 1.5 months of imports in early 2015. With more than half of public debt denominated in foreign currency, the depreciation of the exchange rate has had a significant impact on the debt burden.

63. In Belarus, the authorities cut interest rates earlier in 2014 to revive a weakening economy, but were forced to change tack to address the contagion of currency volatility coming from the Russian Federation in December 2014. They introduced a 30 per cent levy on the purchase of foreign exchange, restricted the expansion of credit and more than doubled short-term lending rates. Some of these measures were modified or removed in the first quarter of 2015.

64. The depreciation of the rouble and falling oil prices prompted exchange rate adjustments throughout the subregion. Kazakhstan devaluated its national currency in February 2014, despite growing reserves, to preserve competitiveness. The authorities later introduced some measures to fight dollarization and reduce depreciation pressures, including lower interest rates on dollar deposits and the conversion of foreign exchange earnings. Azerbaijan, which operated a peg to the dollar, introduced the euro in the reference currency basket and then devaluated the manat in early 2015. Turkmenistan also began 2014 with the devaluation of its national currency by almost 19 per cent against the United States dollar. Among the

non-exporting oil countries, Tajikistan raised interest rates in response to mounting inflation in 2014, to 8.0 per cent from a record low of 4.8 per cent at the beginning of the year. By contrast, Armenia cut rates throughout 2014, as the inflationary pressures linked to gas price increases in 2013 abated. The contagion of currency volatility coming from the Russian Federation led to a sharp reversal in late December 2014 and a series of interest rate hikes.

65. In the Russian Federation, fiscal revenues were boosted by the depreciation of the rouble, offsetting the impact of lacklustre economic performance. Real public expenditure increased after having declined in 2013. The overall federal budget deficit remained unchanged at around 0.5 per cent of GDP, following the issuance of bonds equivalent to 1.4 per cent of GDP to recapitalize the banking system in December 2014. Medium-term budget plans envisaged a balanced budget, with a 10 per cent cut in expenditure for most categories planned in 2015.

66. Energy producers had some policy space to address the slowdown in 2014, but the new era of low oil prices is going to require adjustments. In the Russian Federation, the National Welfare Fund is being increasingly used to finance domestic investments and stabilize the financial system. Currency depreciation and high funding costs have put banks with foreign exchange liabilities in a difficult position, which has resulted in lower credit growth and high interest rates. Around one third of the anti-crisis plan adopted in January 2015 will be financed by the Fund. In late 2014, Kazakhstan announced a policy initiative to boost investment in the country, which envisaged the use of resources of the national oil fund equivalent to almost 1.5 per cent of GDP annually in the period 2015-2017 to finance infrastructure and support small and medium-sized enterprises. At the same time, budget expenditures will be cut by 10 per cent, with the exception of social spending.

67. The fiscal situation in Ukraine became increasingly precarious in 2014 amid shrinking output, rising military expenditures and escalating financing costs. The public deficit reached 4.8 per cent of GDP, but was dwarfed by the quasi-deficit of the State company Naftogaz. A new IMF Extended Fund Facility, approved in early 2015, will provide some relief. Future plans envisage further increases in gas tariffs, a tax reform to encourage reporting, import surcharges and austerity measures to contain non-military expenditure.

68. External balances improved throughout the subregion in 2014. While the growth of exports decelerated, imports plummeted owing to shrinking domestic demand and the depreciation of national currencies. In the Russian Federation, restrictions on the import of food products also contributed to the widening of the trade surplus. Despite the fall in the oil price, the current account surplus almost doubled in 2014 to reach 3 per cent of GDP. However, this improvement was insufficient to accommodate increased net private capital outflows. Geopolitical tensions and a falling oil price reduced the attractiveness of Russian assets, while access to external financing became increasingly difficult. In Ukraine, imports fell by more than a quarter, more than offsetting the decline of exports, which resulted in almost halving the current account deficit to around 4 per cent of GDP. Exchange rate depreciation prompted the external adjustment, but also resulted in a significant deterioration of the debt-to-GDP ratio, which climbed to almost 110 per cent. In Kazakhstan, the current account switched to a deficit, as domestic manufacturers lost competitiveness in relation to Russian producers and oil prices declined. In

most oil and gas importers, the current account deficit widened in 2014, amid sluggish export performance and falling remittances.

69. The Eurasian Economic Union came into force on 1 January 2015. The initial group of signatory countries — Belarus, Kazakhstan and the Russian Federation — was joined by Armenia. The Kyrgyz Republic was expected to become a member in May. The Union envisages the creation of a single market and common policies in a number of key sectors that will result in stronger integration among its members, providing further impetus to mutual trade.

70. The economic outlook in the Commonwealth of Independent States remains challenging, despite some signs of stabilization that emerged in early 2015, following the dramatic currency crisis observed in some countries in 2014. Further geopolitical tensions will have a negative impact on access to finance and the overall business sentiment. An environment of low oil prices, if persistent, will force strong adjustments in energy-exporting countries. The Russian economy will feel the effects of lower oil prices more fully in 2015, and this will negatively affect other countries in the Commonwealth through trade, investment and remittances channels. In energy-importing countries in Central Asia and the Caucasus, the impact of the diminished economic prospects in the Russian Federation will exceed the positive influence of lower oil prices. The depreciation of national currencies has increased competitiveness in some countries, but also weakened the position of the banking system, in which significant fragilities persist. Taking full advantage of the import-substitution possibilities created by currency depreciation will require further structural reforms aimed at improving the business climate and the promotion of economic diversification.